Annual Report
2012/13

At the heart of power electronics

LEM

Elevator

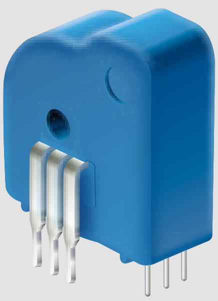
Elevators are generally powered by electric motors that either drive traction cables or counterweight systems like a hoist.

Machine room-less elevators are designed so that most of the components fit within the shaft containing the elevator car. A small cabinet houses the elevator controller and the motors.

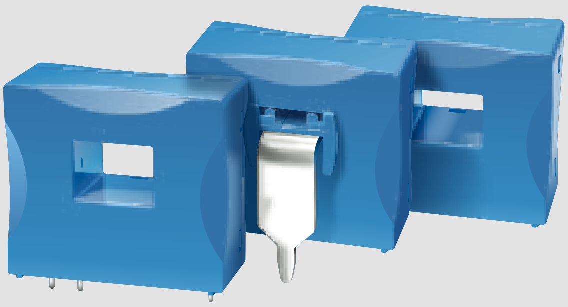
The motor (2) is controlled by an inverter and a controller (3). As soon as someone pushes a button to request the elevator, the controller gives the necessary signals to the inverter. It then moves the motor in the right direction and lets it stop exactly at the right position to the floor ground independent of the weight in the elevator car. The current transducers take care that the motor is powered with the correct current.

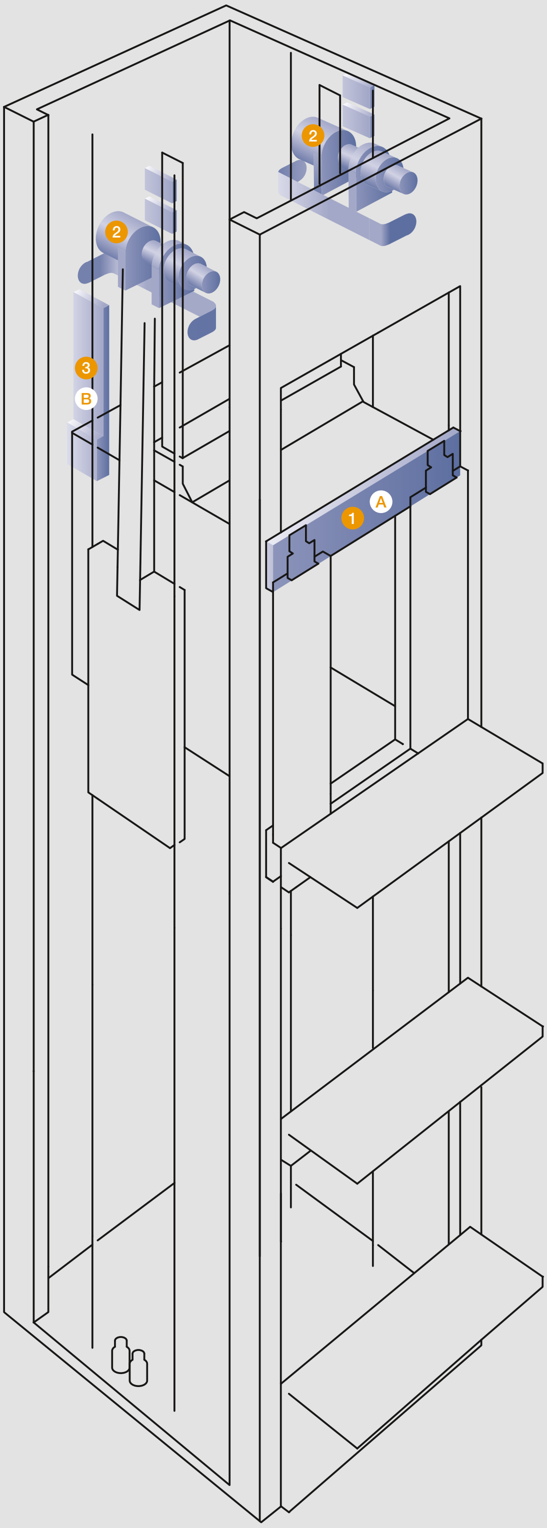
Elevator doors protect riders from falling into the shaft. The most common configuration is to have two panels that meet in the middle and slide open laterally. The doors are controlled by a control unit (1) that integrates the motors of the sliding doors and the protection of the riders. The current transducer measures the current in the motors for two purposes: to run the panels smoothly and to discover if something (e.g., a finger, a leg) obstructs the doors in which case the closing would be stopped.

LTS



LA 150-P





- A LTS
- B LA 150-P
- 1 Door control unit
- 2 Motor
- 3 Controller

Table of Contents

Reporting Period 1 April 2012 to 31 March 2013


LEM

Start-stop systems for cars

Over the past few years, an increasing number of new car models are available with a system that automatically shuts off the engine while stopped in traffic, and restarts it as soon as the driver engages a gear or presses the accelerator.

These so-called start-stop systems reduce the amount of time the engine spends idling, thereby lowering fuel consumption, and gas emissions. To function safely and efficiently, these start-stop systems need a careful measurement of the electric energy available.

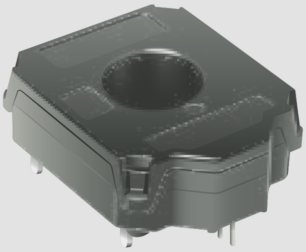
Battery management
The current sensors (HAB, CAB) allow the battery management system to decide if enough energy is available in the battery to operate the accessories (such as air-conditioning, headlights, and radio) while the engine is off, and still have ample charge left to restart the engine.

"Power-control unit" and "starter-generator" management
The "power-control unit" will instruct the "starter-generator" to restart the engine or recharge the battery, as needed, and current sensors (HC5, HAH3) used in the converters and inverter modules allow it to operate smoothly, improving the driver experience while helping the environment.

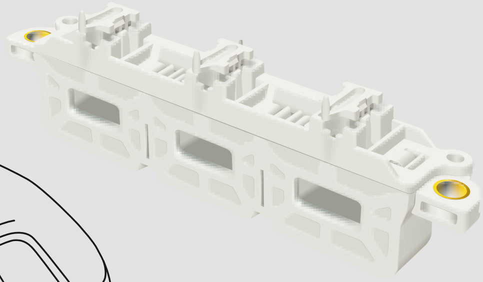
CAB

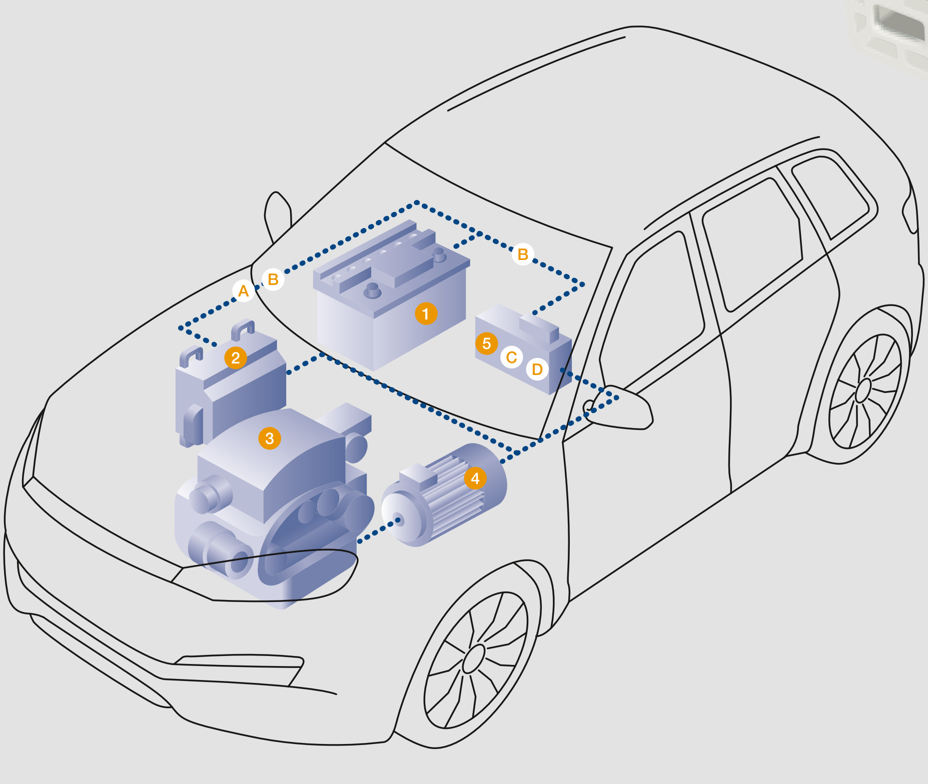
HAB

HC5



HAH3





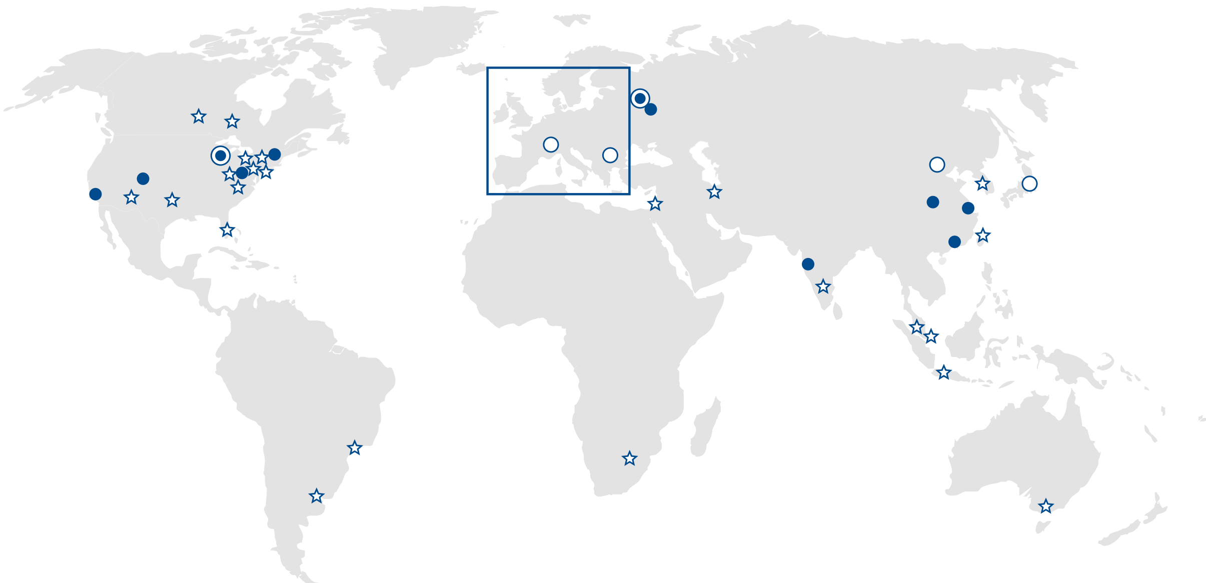
A CAB
B HAB
C HC5
D HAH3
1 Battery
2 Power-control unit
3 Internal combustion engine
4 Starter-generator
5 Rectifier

LEM at a Glance

LEM – At the heart of power electronics
LEM is a focused manufacturer and a global market leader. Its core products, transducers for measuring electrical parameters like current and voltage, are used in a broad range of applications. Although these devices are not visible to the outside world, they are vital for application functionality and the benefits provided to the end users. Starting with products for locomotives in the seventies, LEM expanded into a vast area of industrial applications, including variable speed drives for motors and power supplies for industrial applications. Today, LEM's current and voltage transducers are also used in AC/DC converters, uninterrupted power supply systems for computers as well as in new innovative energy applications like micro-turbines and wind and solar power generation. In addition, new opportunities have been developed in the automotive market such as battery management for conventional cars and electrical motor controls, AC/DC converters, DC/DC inverters, battery pack management and chargers for green cars. This evolution underscores the company's exceptional skills in adapting to rapidly changing industrial trends, such as miniaturization, higher performance levels and a greater degree of application, integration and complexity.

LEM has the strongest brand recognition in its markets. Its products – commonly called "LEMs" – are at the heart of many power electronics applications. LEM's strategy is to increase its technology leadership, efficiency and production flexibility. At the same time, LEM is committed to maintaining customer focus and operational excellence by running cost-effective and service-oriented production platforms. Profitable growth is a key objective.

Worldwide presence
LEM is a global organization with production plants in Beijing (China), Geneva (Switzerland) and Machida (Japan) and, as from October 2013, in Sofia (Bulgaria). The company has sales offices close to its main clients' locations and offers seamless service around the globe.



○ Production Centers (PDCs)
Beijing, China
Geneva, Switzerland
Tokyo, Japan
Sofia, Bulgaria (from October 2013)

◉ Adaptation Centers
Milwaukee, USA
Tver, Russia

● Sales Offices
Geneva, Switzerland
Milwaukee, Columbus OH, Amherst NH, Arvada CO, Los Angeles CA, USA
Tver, Moscow, Russia
Beijing, Shanghai, Shenzhen, Xian, China
Tokyo, Japan
Braine-le-Comte, Belgium
Frankfurt, Germany
Paris, France
Skelmersdale, UK
Padova, Italy
Vienna, Austria
Barcelona, Spain
Pune, India

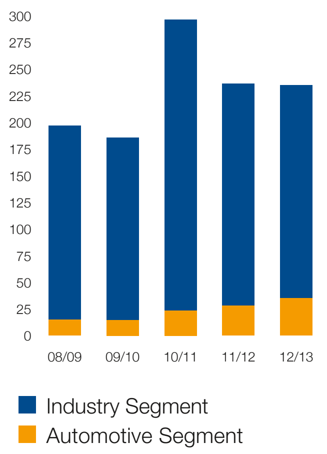
☆ Agents/Distributors

Key figures 2008/09 to 2012/13

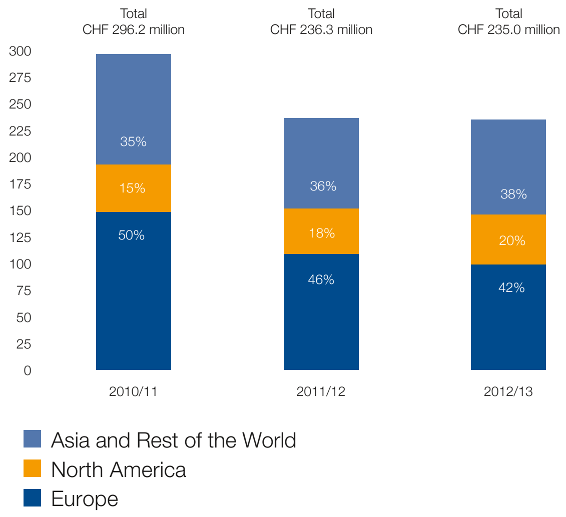
In CHF millions	2008/09	2009/10	2010/11	2011/12	2012/13
Sales	196.8	185.5	296.2	236.3	235.0
Operational EBIT	29.2	25.8	60.4	34.2	41.0
In % of sales	*14.8%*	*13.9%*	*20.4%*	*14.5%*	*17.5%*
Net profit for the year	23.9	10.5	39.6	28.5	32.6
Shareholders' equity	83.5	83.4	96.9	79.6	87.3
Equity ratio (in % total assets)	71.8%	62.9%	59.8%	60.0%	62.4%
Net financial assets / (liabilities)	27.9	29.8	26.6	18.1	27.6
Operating cash flow	30.9	26.3	30.0	46.7	46.2
Investing cash flow	(9.1)	(13.3)	(9.4)	(9.1)	(10.4)
Market capitalization (per 31 March)	172.4	391.0	655.5	563.7	671.5
Employees (FTEs)	909	1'018	1'316	1'136	1'137

Sales over 5 years per segment

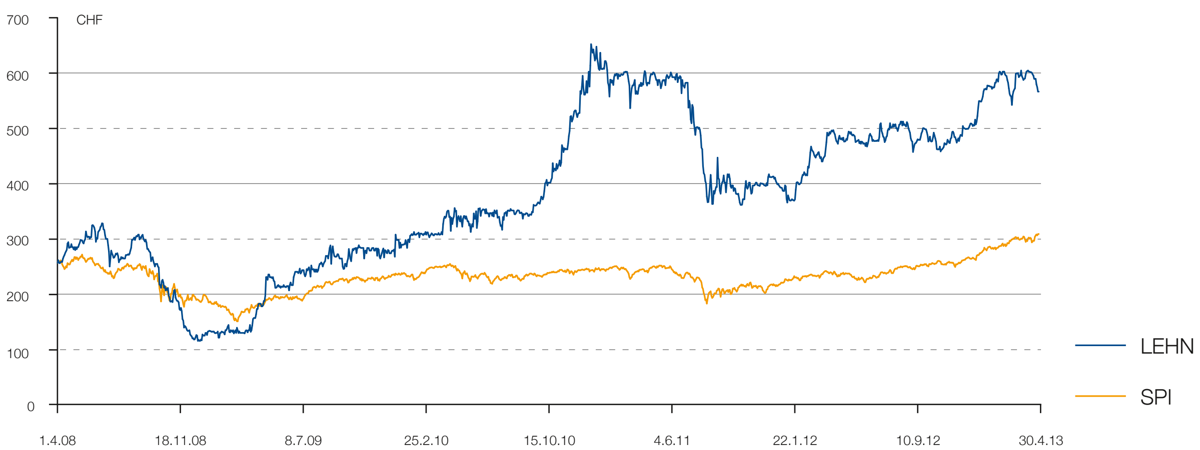
In CHF millions



Regional sales breakdown



Share price development LEM Holding SA (LEHN) compared to SPI



Source: Bloomberg

Foreword

Dear Shareholders,

For us like for our customers last year was challenging. Still, financial year 2012/13 was the second-best year in the company's history. LEM sustained its solid performance demonstrating its resilience in a difficult economic climate. Compared to financial year 2011/12, we managed to increase margins with flat sales.

We started the year with a strong quarter and with hopes for an economic recovery. But soon the aggravating sovereign debt crisis as well as slowing economies in Europe resulted in a depressed sales development, mainly in the Industry segment. The Automotive segment achieved record sales thanks to new products and projects.

Our success factors

We strengthened the company through further progress in implementing our key strategic initiatives and prepared the ground for future success. With a strong presence in the major industrial markets in Europe, Asia and North America, we are the only player in our market operating a large and international sales force. What is more, our sales force is capable of supporting our customers with engineering expertise on their applications. As a result of increasing investment in R&D, we launched eight new products and applied for eleven new patents in financial year 2012/13 – a new record in LEM history. We run an efficient production platform while maintaining the highest quality standards in our industry. With the decision to start production in Bulgaria, we will diversify and increase our low-cost production capacity and at the same time ameliorate our natural foreign currency hedge. Our on-time delivery index reached all-time highs, demonstrating an improvement in responsiveness to our customers. Our recent customer survey shows that this progress is highly appreciated.
Customer satisfaction, innovation and efficiency will remain top priority for LEM going forward.

Improved operating margin

Bookings and sales recovered in the first half of 2012/13 but slowed in Q3 and stabilized in Q4. Sales reached CHF 235.0 million, a decrease of 0.6% compared to the previous year. At constant exchange rates, sales decreased 3.7%. Bookings amounted to CHF 230.6 million, an increase of 26.1% compared to the previous year resulting in a book-to-bill ratio of 0.98.

Operational EBIT reached CHF 41.0 million compared to CHF 34.2 million in the previous year. This result was achieved despite restructuring charges of CHF 1.9 million due to the planned relocation of production lines from Switzerland and Japan to Bulgaria. The EBIT margin of 17.5% was within the target range of 15 to 20%. Net profit amounted to CHF 32.6 million.

Changes in the Board of Directors

Felix Bagdasarjanz, member of the Board of Directors of LEM Holding SA since 2002 and Chairman since 2004, announced his resignation from the Board of Directors on the date of the annual shareholders' meeting on 27 June 2013. The Board of Directors decided that, subject to re-election at the upcoming annual shareholders' meeting, Andreas Hürlimann be nominated as new Chairman of the Board. Anton Lauber, member of the Board of Directors since 2004, has resigned and will not stand for re-election.

Felix Bagdasarjanz leaves LEM having laid the foundations for future success. Under his Chairmanship, the Board has focused on successful execution of transformational projects delivering prosperous outcomes for shareholders, employees and customers. Board and management thank Felix Bagdasarjanz for his leadership over the past eleven years and wish him all the best for the next phase of his life. Anton Lauber has dedicated his valuable experience at board and executive management level transferring to LEM the spirit for continuous improvement towards operational excellence. The Board and management gratefully acknowledge his important contributions and leadership and wish him all the best for the future.

The Board of Directors proposes to elect Dr. Norbert Hess (Dr.-Ing. TU Berlin) as a new member. German national, Mr. Hess is Member of the Executive Committee and Chief Operations Officer at EPCOS AG. Based on his engineering and management career of more than 25 years with Siemens AG and EPCOS AG, Mr. Hess will contribute to the company and the board a breadth of professional experience in material & technology, operations and business management in the electrical components field. He also has developed deep insights into customer segments such as automotive, industry, energy and telecoms.

Dividend proposal to the annual shareholders' meeting

The increased dividend proposal of CHF 30 that the Board of Directors will submit to the 2013 annual shareholders' meeting is a sign of trust in the company's ability to continue generating strong cash flows in the future. The proposal follows LEM's dividend policy to distribute significantly more than 50% of its consolidated net profit to shareholders and corresponds to a payout ratio of 105%.

Thanks

There is great energy to be found at LEM. Our employee survey revealed that team spirit and empowerment are the key pillars of engagement in the company. We owe our employees special thanks, for LEM's success is only possible through their commitment. Our thanks also go to our customers for their trust in our products and services as well as to our shareholders for their long-term investment and trust in the promising future of our company.

F. Bagdasarjanz

Felix Bagdasarjanz
Chairman of the Board of Directors

François Gabella
Chief Executive Officer

Business Report

Augmented efficiency

Financial year 2012/13 was almost a recurrence of the previous year. We started the year well but were soon reminded that the sovereign debt crisis in Europe would take time to be resolved and that sluggish economies in North America and China would affect our business. Since Q3 of 2012/13, orders and sales have stabilized – a trend that we expect to continue into the near future.

Overall, sales were at the same level as in financial year 2011/12, yet our efforts to increase efficiency and flexibility have delivered the expected result. Despite severe price pressure, margins have improved thanks to consistent cost control, productivity increases and the continued shift of production to low-cost countries. We improved our delivery reliability, even with shorter lead times requested by our customers, a strength that was highly rated in our recent customer survey. We continued strengthening LEM through regular product launches, investments in the manufacturing base and close cooperation with suppliers. In October 2013, we will start production in our new low-cost manufacturing site in Sofia, Bulgaria.

Stable sales – strong balance sheet

In financial year 2012/13, sales amounted to CHF 235.0 million, representing a decrease of 0.6% or CHF 1.4 million compared to the previous year. The exchange rate fluctuation had a positive impact. At constant exchange rates, sales decreased 3.7%.

Key figures 2012/13

In CHF millions	Q1	Q2	Q3	Q4	Total
Orders received	60.7	59.8	51.4	58.7	230.6
Sales	63.1	61.1	55.0	55.8	235.0
Book-to-bill	0.96	0.98	0.93	1.05	0.98
Operational EBIT	11.4	12.5	10.6	6.6	41.0
Net profit	**10.7**	**9.8**	**8.1**	**3.9**	**32.6**

At a regional level, North America (+10.5%) and Asia (+9.4%) reported strong increases in sales, while Europe was negatively affected through the economic environment and experienced a decrease in sales (-10.8%). These dynamics illustrate the increasing importance of Asia for LEM. The share of Asia increased from 34% to 37% of total sales, while at the same time the share of sales in Europe fell from 46% to 42%.

Orders received increased 26.1% to CHF 230.6 million in financial year 2012/13. For the full year, the book-to-bill ratio was 0.98. In Q4 of 2012/13, the book-to-bill ratio improved to 1.05, confirming market stabilization.

In financial year 2012/13 we improved the gross margin from 39.1% to 42.0%. The improvement was the result of continued cost savings through improved production processes, more effective capacity management as well as rationalization benefits after the relocation of production from Denmark to Switzerland. We more than compensated the ongoing price erosion in our markets.

Sales, general and administrative spending (SG&A) was reduced by 4.1% to CHF 43.1 million. SG&A as a percentage of sales decreased from 19.0% in financial year 2011/12 to 18.3% in financial year 2012/13.

The research and development expense (R&D) increased by 9.4% to CHF 14.7 million. R&D as a percentage of sales increased to 6.2% in financial year 2012/13 after 5.7% in the year before.

Even including a restructuring charge of CHF 1.9 million linked to the relocation of production to Bulgaria recorded in Q4 of 2012/13, operational EBIT increased to CHF 41.0 million, compared to CHF 34.2 million in financial year 2011/12. LEM's operational EBIT margin was 17.5%, within the company's target range of 15 to 20% and 3.0 percentage points higher than in the previous year.

The Group tax rate increased to 17.5% from 12.4% in the previous year as the reversal of prior years' charges did not repeat in financial year 2012/13. Net profit for the year was CHF 32.6 million (+14.5%).

Our balance sheet remains solid. As at 31 March 2013, total assets increased to CHF 139.9 million mainly due to a higher cash position. Shareholders' equity increased to CHF 87.3 million, representing an equity ratio of 62.4% (60.0% as at 31 March 2012).

Industry segment

In financial year 2012/13, the Industry segment performed well in a volatile economic environment. Sales reached CHF 200.0 million, a decrease of 4.0% compared to financial year 2011/12. The decline is fully attributable to the difficult economic climate in Europe with a decrease of sales of 11%, while business in Asia and North America performed well with growth rates of 6% and 3%, respectively. Still, Europe was our most important region, accounting for 48% of sales, followed by Asia with 36% and North America with 14%. China was the biggest single market for LEM. At constant exchange rates, sales decreased 6.6%. Despite constant price pressure, we increased our operational EBIT margin to 18.3% from 14.4% in financial year 2011/12. The improvement was the result of strict cost control, the relocation of production lines to China, improvements in the supply chain and the concentration of the high-precision production in Geneva.

In the past few years, we have observed a radical change in the structure of international industrial competition, with China emerging as the new leader. While Europe's industrial production decreased and the USA's and Japan's stagnated, China's industrial output was 76% above the level from five years ago. In the course of 2012, the eurozone slid into a recession while the other regions were stable or growing. Several of our customers' industries shifted their production to China, not least the renewable energies businesses.

Overcapacities and constant price pressure remain a permanent issue in our markets. In this challenging environment we maintained, and in some markets increased, our market share. We have launched several new products, some of them already showing market interest. In addition, we enlarged our business activities with new cost-effective products allowing us to tap new markets.

Sales in the drives & welding business decreased 12% compared to last year. We saw weaker demand in all major markets except China, with Europe witnessing the strongest impact. In the second half of financial year 2012/13, we recorded stabilization in Europe and North America.

The renewable energies & power supplies business was affected through the consolidation in the solar and wind markets. Sales increased 7% compared to last year. Strongest growth was in Japan, China and the US, while sales in Europe declined. In the solar business, we observe increased demand for large power installations. Performance in the wind business is constrained due to unresolved grid connection issues.

The traction business remained stable compared to financial year 2011/12. Demand in Europe and Japan is still weak following limited government investment in infrastructure.

Sales in the high-precision business decreased 4% compared to last year as a consequence of weak demand in Europe and Asia. Still, our market share increased after we won new clients and projects.

We will continue with the introduction of new, innovative products. Our ambition is to win additional projects in new applications such as smart grid. Also, maintaining high production flexibility will remain a key priority in financial year 2013/14.

Automotive segment

The Automotive segment achieved sales growth of 24.8%, the third consecutive year with high double-digit growth, to reach sales of CHF 35.0 million in financial year 2012/13. At constant exchange rates, sales grew by 18.0%. The conventional cars business was the growth driver behind this new record result. North America remained the most important market for us with 51% of sales, but Asia, particularly China, is becoming increasingly important for LEM with a share of sales of 17% for China alone and 40% for Asia including China. Growth rates were strongest in China (+54%), USA (+29%) and Japan (+21%). With 8% of sales, Europe remained a relatively small market for LEM. Operational EBIT reached CHF 4.4 million, an increase of 5.8% compared to financial year 2011/12. The operational EBIT margin was 12.7%, compared to 15.0% in the previous year. The lower operational EBIT margin is the consequence of higher competitive pressure as well as increased investment in R&D and marketing.

2012 was a year of records for the global automotive industry. For the first time in history, over 80 million vehicles were produced in a single year. While the European automotive industry suffered from weakness in the economy, US vehicle production rose 19.3% in 2012, making it the best year for the industry since 2007. Also, Asian car markets thrived. Today, one out of four vehicles produced in the world comes from China. Global vehicle sales slowed in first quarter of calendar year 2013 due to ongoing weakness in Europe and slowing economies in Asia.

In order to seize growth opportunities, we have reinforced our international sales force. Thanks to increased investment in R&D, we have launched several new products for hybrid cars and for start-stop applications for conventional cars. Both products offer new functionalities and higher precision at a lower application cost. We see more and more current measurement applications in cars, resulting in growth potential for LEM. On the other hand, we expect intensifying competition in this growing market.

In the conventional cars business, we have seen an increasing interest in our start-stop application. We recorded strong growth in our battery management application. Overall, the market grew faster than expected and our sales increased by 33%.

The green cars market was burdened by high vehicle prices. Hybrid cars had some success, but electric cars still did not perform well. Many green cars projects have been delayed or even cancelled in the course of the last year. In financial year 2012/13, the green cars business decreased by 4% compared to the previous year.

In financial year 2013/14, we will continue to invest in innovation and in developing our sales force in USA, Japan and China. Despite market correction in the green cars business, we see growth potential for LEM.

Strategy implementation

Thanks to our close contacts with our customers, we follow the challenges posed by the changes in the global energy supply and the changing needs of our industrial and automotive customers.

Our key strategic initiatives:

- **We increase our technological leadership**
  We innovate to make our customers more successful. In financial year 2012/13, we launched eight new products and secured eleven new patents, which makes it the most effective innovation year in our history. We launched a new open-loop-based product for industrial applications, HO, which uses our new ASIC generation. It delivers higher precision, offers new functionalities like overcurrent detection and stand-by mode, and is programmable. The new HLSR offers new design with higher accuracy at lower

cost. The product aims at drives and solar markets and, thanks to its low cost, is targeted to opening new applications in new markets. The product generated high interest, and production was ramped up swiftly. The new LA130-150 is based on proven closed-loop hall technology and offers higher precision at a lower cost than older products. In collaboration with a key customer, we developed a new voltage transducer for the traction market, DVL, offering improved performance based on new digital technology. The HFWS 63 has been designed for smart-grid-management applications. In the Automotive segment, we launched three new products: CAB measures the state of the charge in hybrid vehicles; HAH3 DR is a customer-specific transducer that allows communication with a microcontroller and has a serial interface; and HC20 is a new, more cost-effective product for battery monitoring.

Going forward, we continue the renewal of our product range with a strong focus on optimized cost, higher accuracy and new functions. Defining the coming technology trends is our main challenge. To this end, we partner with our customers and also with leading technical universities and institutions in Switzerland, France, Germany and USA on advanced technologies projects.

- **We increase the efficiency of our operations**

  In summer 2012, we centralized the high-precision production in Geneva, Switzerland. This grouping of production reduced our fixed cost and allowed for improvements in the supply chain. As a continuation of our strategy initiated in 2004, we continue to relocate production lines from the plants in Machida, Japan, and Geneva, Switzerland, to low-cost countries. To this end, we have decided to establish a new production site in Sofia, Bulgaria, where we intend to invest CHF 2 million and plan a ramp-up of production as from October 2013. The new plant will allow additional efficiency gains and reduce foreign currency exposure while being located close to our important European market.

- **We increase the flexibility of our production**

  Given the persistent volatility in our markets, we continuously work on the improvement of our processes. In financial year 2012/13, we made major progress in cycle management and customer service. Our reliability improved to all-time high levels of on-time delivery ratios. Our sales and operations planning process (S&OP) again proved to be valuable.

Responsibility

We act responsibly and in accordance with our values. We stipulate rules for our employees that are applicable across the Group. We expect our suppliers to align their actions with internationally recognized principles. Our own standards are aligned to such principles and fulfill or exceed existing laws and regulations. We adhere to the Ten Principles of the United Nations Global Compact. We implement and annually review ISO 14001 environmental management systems. Our transducers contribute to optimizing energy consumption worldwide.

We protect the safety of employees with regular trainings and continuous improvements in infrastructure.

Customer satisfaction

In 2012 LEM conducted a customer satisfaction survey that included clients from all territories in which LEM is active. The survey found that customers rate LEM as highly today as in a similar study conducted in 2009. Our customers most valued our focus on their demands and requests as well as the fact that we are easy to work with. Our trustworthiness and our professionalism in solving issues were additionally listed as LEM's strengths. We are proud that the reliability, performance and quality of our products received even higher ratings than in 2009. Furthermore, our clients confirmed that LEM is a company they appreciate working with and that they perceive us as the global leader in providing transducers to measure electrical parameters.

Employee engagement

In 2012 we also conducted a global survey to assess LEM's employee engagement for the company, managerial and team effectiveness, work conditions as well as quality and customer focus. About two-thirds of all LEM employees participated. The study showed that employee engagement is globally stable compared to the previous study. Team spirit and empowerment remain the two key pillars of engagement at LEM. Around nine out of ten employees are proud to work for LEM. According to the survey, there have been important improvements in the working environment. Workload is slightly higher but with limited impact on perceived stress. The study revealed the employees' wish for improvements in internal communications.

Invest in a motivated workforce

LEM's culture thrives on achievement, innovation and the ability to drive change in a truly global organization. The broad diversity of nationalities and cultures across LEM is a great asset, which not only drives our competitiveness but also brings us closer to our customers around the world.

Outlook

The economic climate remains volatile and the competitive environment fierce. In our Industry segment we expect a progressive restart of sales in North America and Asia and the demand in Europe to remain weak. The Automotive segment is expected to deliver continuous growth. Thanks to our strategic initiatives, we expect operating margins to remain within our target range of 15 to 20%.

Container gantry crane

Container cranes consist of a supporting framework that can traverse the length of a quay, and a moving platform called a spreader (5).

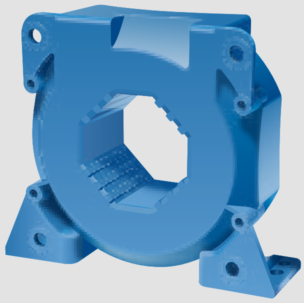
The crane is driven by an operator who sits in a cabin (4) suspended from the trolley. The cabin runs all control and security functions of the crane and translates the operator moves into the correct and smooth movements of the motors.

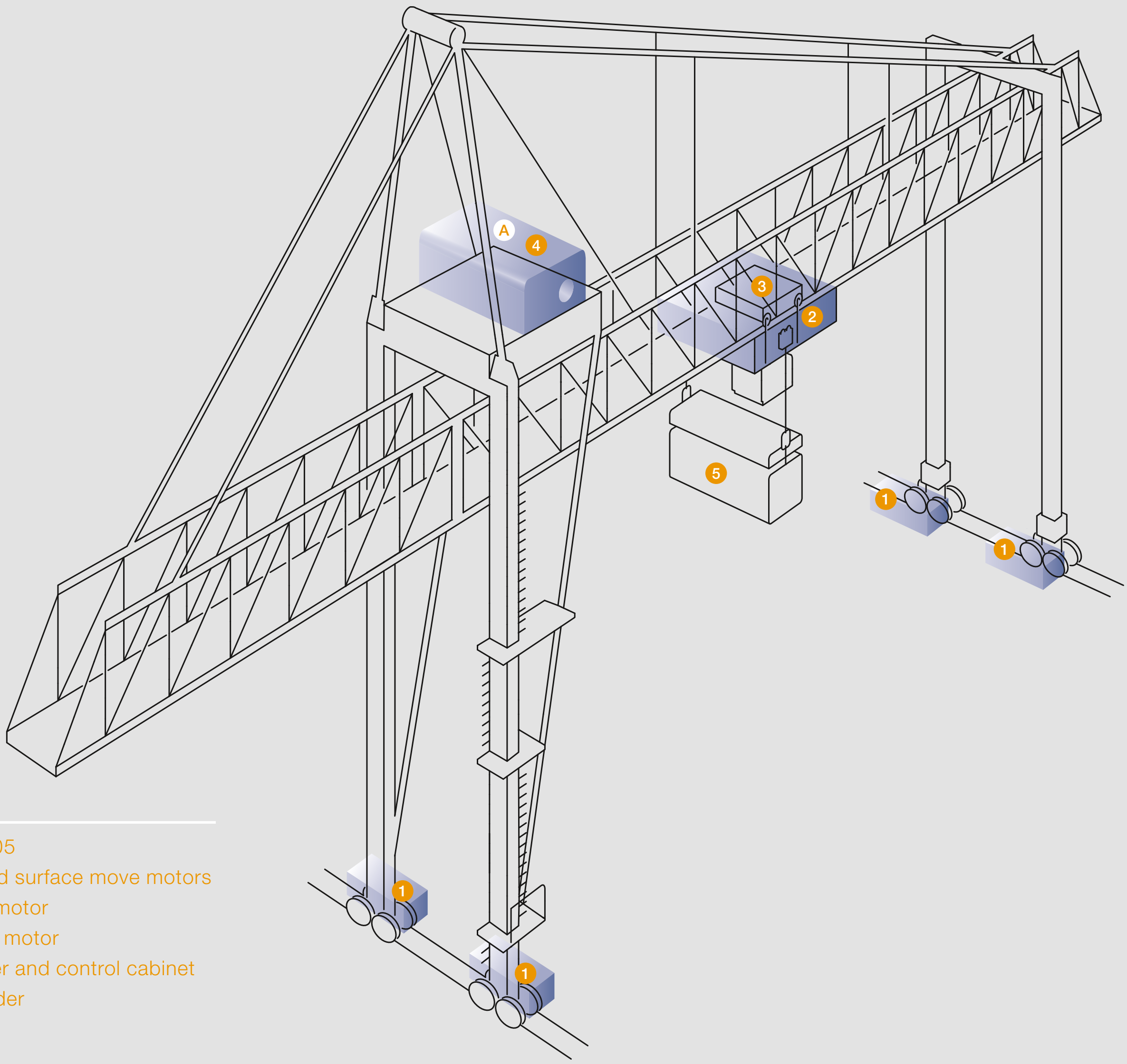
The crane can be moved on rails over the ground surface driven by normally four motors (1). The motors must be controlled by an inverter and a control unit (4) to assure synchronal operation. The trolley (3) runs along rails that are located on top or sides of the boom and girder. The movement is done with two motors located on the trolley. The drive and control unit for the trolley and the hoist is also located in the cabinet.

Once the spreader locks onto a container, the container is lifted and moved. The lift of the container is done normally by one axis with a very sophisticated rope system and driven by one motor (2).

Current transducers are used in all motor inverters to satisfy all requirements for safe and accurate movements.

LF 1005





- A LF 1005
- 1 Ground surface move motors
- 2 Hoist motor
- 3 Trolley motor
- 4 Inverter and control cabinet
- 5 Spreader

LEM’s Core Values

It is vital for all of LEM to share common values and working principles. All employees understand what LEM wants to achieve so that everyone works together for the same purpose.

These values link all LEM employees together and make us a team. They are the common beliefs we share. They are the spirit and intent of everything we do at LEM.

There are six core values, each one guiding us throughout all our activities.

- We are customer driven
- We operate with integrity
- We value teamwork
- We commit
- We strive for excellence
- We lead innovation

We are customer driven

We succeed by exceeding our customer expectations with a “yes customer” attitude. All our activities are driven by the desire to provide best quality service to our customers. We aim to listen to, anticipate and respond to our customers’ needs. For this reason, we collaborate closely with our customers and form true relationships. We target “customer delight”.

We operate with integrity

Basic ethical behavior and integrity in business relationships determine the essence of all our actions. As a company and as individuals, we do the right things right and never compromise our values and principles. We honor our agreements and are honest in our communications.
Our relationships with co-workers, customers, suppliers, partners and the investor community are based on openness and fairness.

We value teamwork

LEM forms a worldwide community. Close collaboration and networking across functions, departments and cultures is critical for the success of the company. To cooperate, we need to be open and honest and willing to share and trust each other. Accountability is a key factor to our success. We are committed to a workplace where individuals are treated fairly and with respect, where all employees have the opportunity to expand their skill, and accomplishments are recognized. Teamwork is more than just working together it is bringing out the best of everyone’s strengths.

We commit

We set our goals high because we know we can reach them. We honor these goals as promises to our customers, our shareholders and ourselves. Our continued success depends on keeping our promises and taking responsibility for all our actions. Success is measured by the results we produce in customer satisfaction, sales, profitability, value creation to our shareholders and the scope of opportunities we provide for our employees.

We strive for excellence

No matter how good our products, services, processes and results, we are dedicated to making them better. We aim for the highest standards of quality for our customers. By approaching our daily work with a passion for perfection, avoiding incidents by managing the risks of our activities, taking initiatives and a desire to learn and share that learning with colleagues, we all can make a difference.

We lead innovation

Innovation is the cornerstone of our success and our future depends on it. Innovation will ensure that we have attractive products for our markets, and a steady supply of new technologies, products, applications and customers. We aim to be the leaders in our industry and not the followers.

Corporate Governance Report

The following information complies with the Corporate Governance Directive of the SIX Swiss Exchange (SIX) and the disclosure rules of the Swiss Code of Obligations. In order to enhance the clarity of this chapter, reference is made to other parts of the Annual Report and our website (www.lem.com). Key elements are contained in the Articles of Incorporation revised 28 June 2012.

1 Group structure and shareholders

Group structure

LEM Holding SA was domiciled at Chemin des Aulx 8 in CH-1228 Plan-les-Ouates, Geneva, and has moved its seat on 2 April 2013 to Avenue Beauregard 1, CH-1700 Fribourg. LEM's registered shares are listed on the main segment of the SIX Swiss Exchange (LEHN, security no. 2'242'762; ISIN 0022427626). On 31 March 2013, the market capitalization was CHF 671 million.

LEM Group is structured into the Industry Segment and the Automotive Segment. Appropriate segment reporting pursuant to IFRS is contained in note 3 of the notes to the consolidated financial statements. All companies in LEM Group are listed under "Scope of consolidation" in note 26 of the consolidated financial statements, with their respective company names, registered offices, share capitals and the relevant percentages of shares held. There are no other listed companies in the scope of consolidation.

Significant shareholders

On 31 March 2013, the following shareholders held 3% or more of the share capital and voting rights:

In number of shares/options, per cent of shareholding	31 March 2013				31 March 2012			
	Shares	Options	Position	In %	Shares	Options	Position	In %
Werner O. Weber and Ueli Wampfler, in Zollikon/Wollerau, Switzerland, through WEMACO Invest AG and Swisa Holding AG, in Zug/Cham, Switzerland	398'000	50'000	448'000	39.30%	382'500	N/N	382'500	33.60%
Ruth Wertheimer, in Kfar, Israel, through 7-Industries Holding B.V., in Amsterdam, Netherlands	144'581	N/N	144'581	12.70%	144'581	N/N	144'581	12.70%
Sarasin Investmentfonds AG, in Basel, Switzerland	90'320	N/N	90'320	7.90%	101'044	N/N	101'044	8.90%
Montanaro Asset Management Ltd, in London, United Kingdom	69'071	N/N	69'071	6.10%	55'251	N/N	55'251	4.80%
Erwin Studer and Joraem de Chavonay, in Zollikon/Zug, Switzerland	97'000	(50'000)	47'000	4.10%	89'500	N/N	89'500	7.90%
Amerprise Financial Inc., in Minneapolis, USA, through Threadneedle Asset Management Ltd, in London, United Kingdom	38'216	N/N	38'216	3.40%	56'777	N/N	56'777	5.00%
Impax Asset Management Ltd	–	–	–	<3%	35'400	N/N	35'400	3.10%

N/N = none notified

Mr. Werner O. Weber and Mr. Ueli Wampfler have notified the company of the acquisition of 50'000 options from Erwin Studer and Joraem de Chavonay on 27 June 2012. No other shareholder has notified any options to the company.

Cross-shareholdings

LEM has no cross-shareholdings with other joint-stock companies.

2 Capital structure

Capital and shares

The nominal value of the share capital of LEM Holding SA is CHF 570'000, which is divided into 1'140'000 fully paid-up registered shares with a par value of CHF 0.50 each. There are no shares with preferred voting rights. All shareholders are entitled to the same dividends.
There are no restrictions on the transfer of shares. In order to be registered in the share register, each shareholder shall declare that he holds the shares for his own account.

On 31 March 2013, LEM Holding SA held 1'316 treasury shares.

Authorized and conditional capital

There is no authorized or conditional capital, nor are there any profit sharing certificates or participation in certificates or any convertible bonds outstanding.

Information on the Performance Share Plan and the stock option plans is provided in the Compensation Report, under the section "2.1.4 Discontinued plans" on page 25 and in the note 21 to the consolidated financial statements on page 51.

3 The Board of Directors

Election, terms of office and cross-involvement

The Board of Directors is comprised of at least three members who are individually elected at the ordinary shareholders' meeting for a mandate of one year, which is renewable up to an age limit of 70. The Board constitutes itself and the Chairman is nominated by the Board.

At the ordinary shareholders' meeting on 28 June 2012, Felix Bagdasarjanz, Ilan Cohen, Andreas Hürlimann, Anton Lauber, Peter Rutishauser and Ueli Wampfler were re-elected as members of the Board of Directors. Felix Bagdasarjanz maintained the Chairmanship and Peter Rutishauser the Vice Chairmanship. All members of the Board are non-executive and have at no time been part of the executive management of LEM. Furthermore, they have no significant business connections with LEM Group.

The Board of Directors was comprised of the following members as of 31 March 2013:

Felix Bagdasarjanz
Nationality Swiss
Born in 1945

Position Chairman of the Board of Directors
Entry 2002
Professional background
Since 2002, Independent business consultant
1999 – 2002, CEO, ESEC and Member of the Executive Board, Unaxis
1997 – 1999, Member of the Executive Board, ABB Switzerland
1992 – 1997, Managing Director, ABB Drives AG/ABB Industrie AG
Other notable activities
- None

Education Dr. of Electrical Engineering, ETH Zürich

Ilan Cohen
Nationality Israeli
Born in 1956

Position Member of the Board of Directors, Member of the Audit Committee
Entry 2010
Professional background
Since 2010, President, Servotronix Motion System Ltd. and Servotronix Motion Control Ltd., Israel
2008 – 2009, General Manager, Kollmorgen Industrial & Commercial Engineered Solutions Ltd. (Danaher Group)
1997 – 2008, President and CEO, Kollmorgen Servotronix Ltd.
1987, Founder, Servotronix Ltd.
1983 – 1990, Associate professor, University of Tel Aviv, Israel
Other notable activities
- Board member, Servotronix Motion Control Ltd., Israel
- Founder, Cleantech Incubator and Engineering School, IDC University, Israel

Education
Ph. D. Control System, Ecole Polytechnique de Bruxelles, Belgium
MSEE, CALTECH Pasadena, USA
M. Sc. and BSEE Electro-mechanical engineer, Ecole Polytechnique de Bruxelles, Belgium

Andreas Hürlimann
Nationality Swiss
Born in 1964

Position Member of the Board of Directors
Entry 2011
Professional background
Since 2011, Independent board professional and entrepreneur
2005 – 2010, Managing Director, Spencer Stuart, Zürich
1999 – 2005, Global Director of Industry Practices and Member of the Executive Board, Arthur D. Little Inc., London and Paris
1990 – 1999, International Marketing and Sales Management roles with Siemens Schweiz AG, ABB Kraftwerke AG and Oerlikon Aerospace Inc., Zürich, Baden, Montreal
Other notable activities
- None

Education M. Sc. Electrical Engineering, ETH Zürich

Anton Lauber

Nationality Swiss

Born in 1951

Position Member of the Board of Directors, Member of the Nomination & Compensation Committee

Entry 2004

Professional background
Since 2012, Independent board professional
2008 – 2011, Delegate of the Board of Directors, Schurter AG, Lucerne, and President Division Components, Schurter Group, Lucerne
1993 – 2008, CEO and Delegate of the Board of Directors, Schurter AG, Lucerne
1988 – 1992, Technical Director, Schurter AG, Lucerne
1985 – 1988, Managing Director, Generatorenfabrik ABB AG, Baden
1980 – 1984, Head of Production, Power Plants ABB AG, Baden

Other notable activities
- Chairman of the Board of Directors, Voegtlin Meyer AG, Brugg; Hightech Zentrum Aargau AG, Brugg
- Vice Chairman of the Board of Directors, Bossard Holding AG, Zug
- Member of the Board of Directors, CTC Analytics AG, Zwingen; Landert Motoren AG, Bülach; Fr. Sauter AG, Basel
- President of the Council, Hochschule Lucerne / University of Applied Sciences and Arts

Education
Graduated Machinery Engineer, Technical University Brugg-Windisch
Postgraduate diplomas at University of Applied Sciences, Lucerne, and University of St. Gallen in Business Administration

Peter Rutishauser

Nationality Swiss

Born in 1956

Position Vice President of the Board of Directors, Chairman of the Nomination & Compensation Committee

Entry 2003

Professional background
Since 1989, Independent entrepreneur, member of the board and shareholder of several mid-sized companies

Other notable activities
- Delegate of the Board of Directors, Equatis AG, Zürich
- Member of the Board of Directors, Pavatex AG, Fribourg

Education Dr. sc. nat., ETH / Lic. oec., HSG

Ueli Wampfler

Nationality Swiss

Born in 1950

Position Member of the Board of Directors, Chairman of the Audit Committee

Entry 2007

Professional background
Since 2004, Founder and Senior Partner, Wampfler & Partner AG, Zürich
1998 – 2004, Director, STG Schweizerische Treuhandgesellschaft, Zürich
1974 – 1998, STG Coopers & Lybrand, Zürich (Partner since 1991)

Other notable activities
- Chairman of the Board of Directors, Swisa Holding AG, Cham (Swisa Group); Mercedes-Benz Automobil AG, Schlieren; Merbag Immobilien AG, Schlieren
- Member of the Board of Directors, Caspar Finanz AG, Zug (Traco Power Group); Merbag Holding AG, Cham; Rebew AG, Zürich

Education Lic. oec., University of Zürich / Certified auditor

Internal organizational structure

The Board of Directors meets as often as necessary, but five to six annual meetings are planned in advance. In the completed financial year, three full-day meetings and four half-day meetings were held. The meetings usually take place at the company's headquarters. The Chairman, after consultation with the CEO, determines the agenda for the Board meetings. The members of the Board of Directors can ask for additional items to be included. The Board members receive supporting documents beforehand, allowing for a good preparation of the meeting. As a rule the CEO attends the meetings of the Board of Directors without having a right to vote, and for most of the agenda items the CFO also attends. Depending on the issues, other members of Executive Management participate in the meetings in order to respond to specific questions. Decisions can be taken by the Board if at least half of the Directors are present, and a simple majority of them is sufficient. In the event of deadlock, the Chairman has the casting vote. Minutes of the meetings including decisions taken are prepared by the outside Secretary of the Board and distributed to the members of the Board, the CEO and the CFO.

The Board of Directors reflects, in its working procedures, the efficiency and effectiveness of the teamwork as well as its interaction with the management of the company on a regular basis. Regular feedback sessions at the end of a meeting provide valuable inputs for the continuous improvement of the Board's coherence and leadership.

Definition of areas of responsibility

The Board of Directors delegates the management of the company to the CEO to the fullest extent permitted by the Swiss Code of Obligations. The Board of Directors reviews and assesses at least on an annual basis and takes decisions in the following areas:

- Review and approval of the strategy, business plan, annual business objectives and budget for the LEM Group.
- Approval of creation/closing of any subsidiary and purchase/sale of any interest in any company or entry into any merger or joint venture agreement.
- Appointing/dismissing of the Executive Management.
- Monitoring the ethical and legal behavior of LEM.
- Reviewing of human resources management, including co-worker satisfaction and management development and legal, intellectual property, social and environmental aspects.

Information and control systems of the Board of Directors vis-à-vis Management

The Board of Directors ensures that it receives sufficient information from the Management to perform its supervisory duty and to make the necessary decisions.
The Board of Directors obtains the information required to perform its duties through several means:

- The Board of Directors receives monthly and quarterly reports on the current development of the business.
- Informal meetings and teleconferences are held as required between the Chairman and the CEO as well as between the Chairman and individual members of the Board.
- The Committees meet at regular intervals and exchange detailed information with the Management.
- The Board receives detailed information to each agenda item one week before the board meeting.
- At least once a year a session is held in the Board meeting including all Executive Managers.

Business risk management

In compliance with Art 663b of the Swiss Code of Obligations, LEM is using a standardized procedure to analyze its business risks. LEM's risk management covers all types of risk: financial, operational and strategic – including the external business environment, compliance and reputational aspects.

The Executive Management conducts an annual risk analysis. The results and consecutive action plans are thereafter presented to and formally approved by the Board of Directors.

The risk management approach follows five steps: In a first step, potential hazards are evaluated and a consensual list with 10 to 15 main hazards is set up. In a second step, each hazard is assessed by a multiplication of probability with frequency. Step two results in a risk map which visualizes LEM's potential risk environment. In step three an action plan is put in place to manage the risks. The hazards thereafter are revalued a second time, taking into consideration the action plans. In step four the action plan is validated and thereafter monitored on a monthly basis (step five).

Internal control system

In compliance with Art 728 a/b of the Swiss Code of Obligations, LEM has put in place an internal control system.

Starting from the material positions in the financial result of the Annual Report, the important underlying processes and process owners have been identified. For each process, key risks that could lead to errors in the financial reporting have been identified. For each key risk, key controls have been defined and responsibilities assigned to assure effective compliance and documentation of the key controls. The process has been presented to and approved by the Audit Committee.

Looking forward, the process owners will perform an annual process review whereby identified weaknesses shall be continuously improved and key risks and controls shall be updated. Based on the input of the process owners the CFO prepares an annual report on the internal control system which is presented to and discussed with the Audit Committee.

Committees

Two standing committees support the Board of Directors. They are comprised of two non-executive members of the Board of Directors. They meet whenever necessary but at least twice a year.

- The primary objective of the Audit Committee (AC) is to provide the Board of Directors with effective support in financial matters, in particular the selection and supervision of the external auditor, assessment of the effectiveness, compliance and clarity of the Group financial reporting and the assessment and preparation of the financial reports to the shareholders. Furthermore, it reviews critical accounting policies, financial control mechanisms and compliance with corresponding laws and regulations as well as the development and continuous improvement of the internal control system. If required, the external Group auditors are invited to participate at the meeting. The AC prepares proposals to be decided by the Board of Directors. In the completed financial year three half-day meetings were held.

- The Nomination & Compensation Committee (NCC) deals with succession, recruitment and compensation of the members of the Board of Directors and the Executive Management. It ensures and monitors the personnel development plan and adequate succession planning for the middle and top management. It reviews and updates the performance-based compensation system for the Executive Management. The NCC prepares proposals to be decided by the Board of Directors. In the completed financial year five half-day meetings were held. Additionally, six telephone conferences were held.

4 Executive Management

The Executive Management was comprised of the following members as of 31 March 2013:

François Gabella

Nationality Swiss

Born in 1958

Function CEO LEM Group

With LEM since 2010

Previous companies and positions
- 2006 – 2010, CEO, Tesa SA
- 2002 – 2006, SVP, Areva
- 1996 – 2002, Business Area Manager, ABB Power Transformers

Education M. Sc. Microtechnics EPFL, MBA IMD

Julius Renk

Nationality German

Born in 1970

Function CFO

With LEM since 2009

Previous companies and positions
- 2006 – 2009, CFO, AB Enzymes GmbH
- 2000 – 2006, CFO, IP France SA (RTL Group)

Education Lic. oec. HSG, CEMS Master in International Management

Luc Colombel

Nationality French

Born in 1959

Function Vice President, Automotive

With LEM since 1996

Previous functions
- 2005 – 2009, Vice President, Automotive and Traction
- 2004 – 2005, Vice President, Traction
- 1996 – 2004, Business Development Manager Auto

Previous companies and positions
- 1988 – 1996, Strategic Development and Sales Manager, Arcelor Group

Education Engineer ESIGELEC

Hans-Dieter Huber

Nationality German

Born in 1959

Function Vice President, Industry

With LEM since 1995

Previous functions
- 2000 – 2004, Business Development manager
- 1995 – 2000, Sales & Marketing Manager Industry LEM Germany

Previous companies and positions
- 1986 – 1995, R&D Team Manager, ABB Drives Germany

Education Graduate Electrical Engineer, Berufsakademie Mannheim

Jean-Marc Peccoux

Nationality French

Born in 1966

Function Vice President, R&D and Vice President, IP

With LEM since 2001

Previous functions
- 2004 – 2010, Corporate Quality Manager LEM Group
- 2003 – 2004, Quality Manager & Purchasing Manager Geneva site
- 2001 – 2003, Quality Manager Geneva site

Previous companies and positions
- 1995 – 2001, Quality Director and R&D Program Manager Valeo
- 1991 – 1995, R&D Project manager, Schlumberger
- 1990 – 1991, Software Engineer, BEL Group

Education M. Sc. ENSAM, Master of Economics Besançon University

Simon Siggen

Nationality Swiss

Born in 1967

Function Vice President, Operations

With LEM since 2002

Previous functions

2002 – 2005, Operations Manager Geneva site

Previous companies and positions
- Business Segment Director, Leclanché

Education Engineer EPFL, Master in Logistics EPFL

None of the members of the Executive Management have other activities in governing or supervisory bodies, any official functions or political posts nor any permanent management functions for important Swiss and foreign interest groups.

Management contracts

There are no management contracts with companies or individuals outside the LEM Group.

5 Compensation and shareholdings

Please refer to the section "Compensation Report" on page 22.

6 Shareholders' participation rights

The rules on shareholders' participation rights are outlined in the Articles of Incorporation. The rules for the convening of shareholders' meetings, the participation rights and the majority rules for decisions are all following the Swiss law. The complete Articles of Incorporation can be downloaded from the Investor Relations pages on the internet page www.lem.com.

Voting rights and representation restrictions and inscription in the share register

There are no limitations on voting rights for shareholders who are entered into the shareholders' register with voting rights. Anyone purchasing registered shares is registered by the Board of Directors in the share register on request as a shareholder with voting rights, provided he expressly declares that the shares have been bought and will be held for his own account.

Each shareholder may be represented by the representative of the Company, by the independent representative, or by a third party who need not be a shareholder of LEM Holding SA.

Statutory quorums

The Articles of Incorporation contain no deviation from the applicable law.

Convocation of the general meeting of shareholders

Shareholders registered are convened to shareholders' meetings by ordinary mail and by publication in the Swiss Official Gazette of Commerce at least 20 days prior to the day of the meeting. Any shareholder who, on the day determined by the Board of Directors, is registered as a shareholder has the right to attend and vote at the shareholders' meeting.

Agenda

According to Article 10 of the Articles of Incorporation, one or several shareholders who collectively hold 10% of the share capital can call for a shareholders' meeting and submit matters to be placed on the agenda.

Dividend policy

LEM targets a payout ratio significantly above 50% of the consolidated net profit for the year, to be proposed by the Board of Directors to the shareholders' meeting.

7 Change of control and defensive measures

Opting-out clause

In June 2010, the shareholders introduced an opting-out clause according to article 32 of the Federal Act on Stock Exchanges and Securities Trading (SESTA) in the Articles of Incorporation of the company. This clause releases any shareholder from the obligation to submit a public takeover offer to all shareholders as soon as his participation in LEM exceeds 33⅓% of the voting rights. The Swiss Takeover Board has decided on 22 September 2011 that a passing of the 33⅓% threshold by the shareholder group Weber & Wampfler would not trigger the obligation for a public takeover offer.

Clauses of changes of control

There is no particular clause in the Articles of Incorporation for changes of control. If dismissed in the case of a change of control of the company, one member of the Executive Management will receive additional severance payments equal to 6 months remuneration.

8 Auditors

The duration of the auditors' mandate is one year. Ernst & Young have been auditing LEM since the financial year 2005/06, with Philippe Stöckli bearing the responsibility for the audit since 2011/12.
Ernst & Young charged the following fees for professional services rendered for the 12-month period ending 31 March 2013:

Type of service

In CHF thousands	2012/13
Audit services	292
Tax services	168
Other services	37
Total	**496**

Evaluation and control of the auditors is done by the Audit Committee which makes recommendations to the Board of Directors. In particular, the Audit Committee evaluates the performance, fees, and independence of the auditors.

The auditors report on the results of their audits both orally and in writing. Financial statements as well as management letters are discussed in the Audit Committee in the presence of the external auditors.

During 2012/13 Ernst & Young attended two regular Audit Committee meetings.

9 Information policy

LEM informs its shareholders on the business status and its results on a quarterly basis. After the first six months a half-year report is published. This report, as well as the Annual Report, is distributed to all shareholders inscribed in the share register and made publicly available on its website www.lem.com. Once a year, LEM holds a presentation for the media and financial analysts. Internal processes assure that price-sensitive facts are published without delay in accordance with the ad hoc publicity rules of the SIX Swiss Exchange.

At *www.lem.com*, detailed information (e.g., the Articles of Incorporation, interim and annual reports, investor presentations, as well as important dates) is available.

Contact for investors and media:
Julius Renk, CFO
Chemin des Aulx 8
CH-1228 Plan-les-Ouates
or send an e-mail to
investor@lem.com
phone: +41 22 706 12 50

Compensation Report

The future of LEM depends on our ability to attract, retain and develop talented people. Among the many measures we use to achieve this ambition are competitive remuneration policies for our Executive Management. Our compensation policies are based on performance and LEM's emphasis on creating value for its shareholders. To this end, our compensation policies are designed to be aligned with shareholders' interest.

At our forthcoming AGM on 27 June 2013, we will ask you, our shareholders, again to cast an advisory vote on the compensation of the Board of Directors and the Executive Management. We value your opinion. Even though it remains an advisory vote, your opinion will seriously be taken into consideration for the future development of our compensation system.

In brief:

- Core principles
  LEM's compensation policies are based on performance and the creation of long-term value for shareholders. The compensation policies are approved by the Board of Directors on recommendations by the Nomination & Compensation Committee (NCC) and reviewed on an annual basis. All fixed and variable salaries are paid in cash.

- Compensation of the Board of Directors
  The compensation of the Board of Directors consists purely of a fixed fee paid in cash. There is no additional variable compensation. The total compensation for the Chairman and the members of the Board of Directors depends on the amount of responsibility and all work related to the Board of Director membership such as Committee activity.

- Compensation of the Executive Management
  In order to encourage and reward results that contribute to the sustainable long-term success of LEM, the total compensation of the Executive Management consists of three elements: base salary, bonus according to LEM incentive system (LIS) and nonwage compensation. The target-setting process for the LIS is carried out on an annual basis and includes performance criteria related to the individual's function and responsibility and performance criteria related to financial results of LEM.

- Changes to the compensation policies
  In 2012/13 there were no material changes to the compensation policies.

F. Bagdasarjanz

Felix Bagdasarjanz
Chairman of the Board of Directors

Rutishauser

Peter Rutishauser
Chairman Nomination &
Compensation Committee

1 Board of Directors

1.1 General principles for compensation of non-executive directors

Compensation for the Board of Directors is approved by the Board of Directors based on recommendations by the NCC. The remuneration of the Board of Directors is a fixed cash payment and is reviewed on an annual basis. The remuneration compensates for the personal responsibility and exposure as a non-executive member of the Board of Directors and all work related to the Board of Directors membership. There is neither an additional variable compensation nor any participation in an equity-based compensation plan. Each member of the Board of Directors shall be a shareholder of LEM. The number of shares to be acquired on the market within a period of three years after joining the board shall reach a value of approximately three annual fixed compensations. Trading with LEM shares has to respect the insider regulation of LEM.

Discontinued plans

All legacy stock option plans have been closed per 31.3.2012. For details, please refer to note 21 in the notes to the Consolidated Financial Statements.

1.2 Remuneration of non-executive directors

The Board of Directors has decided to adopt a remuneration scheme with a fixed fee paid in cash in the amount of CHF 200'000 for the Chairman, CHF 120'000 for the Vice Chairman and CHF 80'000 for a member. Committee activity will be compensated with CHF 30'000 for the Committee's chairman and with CHF 20'000 for its members.

In 2012/13, additional fees totaling CHF 130'000 were awarded to Andreas Hürlimann (CHF 95'000), to Ilan Cohen (CHF 20'000) and to Peter Rutishauser (CHF 15'000) for additional efforts in their role and duties as members of the Board of Directors.

2012/13

In CHF thousands	Annual salary	Additional fees	Cash-out for options granted in prior years
Felix Bagdasarjanz[1]	200	–	–
Ilan Cohen[2]	100	20	–
Andreas Hürlimann	80	95	–
Anton Lauber[3]	100	–	–
Peter Rutishauser[4, 5]	150	15	–
Ueli Wampfler[6]	110	–	–
Total	**740**	**130**	**–**

The Board of Directors decided to contribute the equivalent of 5% of its annual remuneration to LEM's cost savings efforts in 2011/12. The annual salary had been lowered accordingly.

2011/12

In CHF thousands	Annual salary	Additional fees	Cash-out for options granted in prior years
Felix Bagdasarjanz[1]	171	–	–
Ilan Cohen[2]	95	10	–
Andreas Hürlimann	76	10	–
Anton Lauber[3]	95	–	–
Peter Rutishauser[4, 5]	143	–	–
Ueli Wampfler[6]	104	–	–
Total	**685**	**20**	**–**

[1] Chairman of the Board of Directors
[2] Member of the Audit Committee
[3] Member of the Nomination & Compensation Committee
[4] Vice Chairman of the Board of Directors
[5] Chairman of the Nomination & Compensation Committee
[6] Chairman of the Audit Committee

Compensation of former members

In financial year 2012/13, no compensation was paid to former members of the Board of Directors.

1.3 Shareholdings of non-executive directors

In number of shares / options	31.3.2013 Number of shares held	31.3.2013 Number of options held	31.3.2012 Number of shares held	31.3.2012 Number of options held
Board of Directors				
Felix Bagdasarjanz	1'736	0	1'736	0
Ilan Cohen	140	0	120	0
Andreas Hürlimann	505	0	211	0
Anton Lauber	424	0	1'000	0
Peter Rutishauser	2'606	0	2'606	0
Ueli Wampfler	28'000	10'000	25'000	0
Total	**33'411**	**10'000**	**30'673**	**0**

Ueli Wampfler has acquired 10'000 options on LEM shares from the shareholder group Studer/Chavonay. Refer to note 2.1.4 Discontinued plans.

2 Executive Management

2.1 General principles for compensation of Executive Management

Remunerations for the Executive Management are approved by the Board of Directors based on recommendations by the CEO and the NCC. The remuneration of the CEO is proposed by the Chairman for approval by the Board of Directors. The remuneration of the Executive Management is reviewed on an annual basis. The total annual compensation is part of the manager's contract and does not contain any discretionary elements.

The total compensation for the Executive Management consists of three elements:

1. Base salary
2. Bonus according to the LEM Incentive System (LIS)
   LIS part 1: performance related to the individual's function and responsibility
   LIS part 2: performance related to the financial performance of LEM
3. Nonwage compensation

2.1.1 Base salary of Executive Management

LEM's base salary orients itself around a mid-point of available and comparable benchmark data of industrial companies with a plus and minus band of 20%. In case that available benchmark data allow for a comparison of total remuneration (base salary plus bonus) the comparison around a mid-point is made assuming a value of half of the maximum bonus according to our target-setting philosophy. Base salaries are fixed amounts of cash paid monthly. We review base salaries annually to ensure they remain competitive, comparing them with the benchmark data. The benchmark data is taken from Mercer Compensation data base.

2.1.2 Bonus of Executive Management: LEM Incentive System

The target-setting process for the LEM Incentive System (LIS) is part of the LEM performance management and is carried out on an annual basis. All bonus payments are made in cash and in the first quarter of the new business year based on the annual accounts and the personal performance review. Objectives and performance evaluation are prepared by the Chairman of the Board of Directors for the CEO, by the Audit Committee (AC) for the CFO and by the NCC for other Executive Management. The final approval is given by the Board of Directors.

LIS part 1: performance related to the individual's function and responsibility

Annual LIS 1 objectives are agreed between the Executive Manager and the CEO at the beginning of each business year and a final review is performed at the end of the year.

The maximum value of the annual bonus related to LIS part 1 is 35% of the base salary for the Executive Management, 30% for the CFO and 60% for the CEO.

The number of objectives has to be large enough to allow the manager to reach a fair level of bonus rewarding his results even under changed business conditions. Since the degree of achievement of set objectives has to be evaluated at the end of the period, a clear understanding of the metric to be applied has to be established at the time of target setting and kept constant for the whole period. For every criterion, the curve between minimum and maximum bonus level has to be defined. The point of 67% bonus shall be set at the level of an ambitious but achievable objective.

In order to guarantee consistency of the target-setting process within LEM group, the key objectives for the year will be defined by the CEO together with Executive Management at the beginning of each business year.

LIS part 2: performance related to financial performance of LEM group

The LIS part 2 is an annual bonus which is based on the performance of LEM evaluated over a period of three consecutive years. The performance criterion is the cumulated economic value added (EVA) achieved over these three years. The definition of the EVA objective takes place at the beginning of year one and the evaluation of the performance at the end of year three. Once the forward-looking EVA objective is defined, the EVA objective remains unchanged over the period of three years. Every year, the new three years objective for the cumulated EVA is defined and kept unchanged over the respective three years period. The bonus payment takes place every year based on the comparison between the EVA objective defined three years before and the performance achieved at the end of the three years period.

The new forward-looking EVA objective is approved annually by the Board of Directors based on a proposal by the NCC and following the annual closing. The proposal of the new objective has to be presented in the context of the historical performance, the actual three-year financial plan of LEM and the shareholders' expectations expressed in the share price development.

The maximum value of the annual bonus related to LIS part 2 is 25% of the base salary for the Executive Management, 20% for the CFO and 40% for the CEO.

2.1.3 Nonwage compensation of Executive Management

Nonwage compensation includes in particular pension plans (retirement benefits). LEM has a policy to limit nonwage compensation to what may be required for the job holder as a work instrument to fulfill his/her function according to generally accepted local usages.

Executive Management benefits from the Swiss pension plan, a defined contribution plan that provides retirement benefits and risk insurance for death and disability. Under IFRS, this plan is considered as a defined benefit plan. The insured salary is based on LPP Swiss law and is without limitation on the amount. The pension fund is funded by contributions from the company and the insured employees. The average contribution for the employee is 43% and 57% for the company.

2.1.4 Discontinued plans

All legacy stock option and share programs have been closed per 31.3.2012. For details, please refer to note 21 in the notes to the consolidated financial statements.

2.2 Remuneration of Executive Management

2012/13

In CHF thousands	Annual salary compensation	Annual bonus compensation[1]	Company's contribution to pension fund	Total compensation	Cash-out for options granted in prior years	Pay-out of PSP shares granted in prior years
François Gabella, CEO	450	329	49	828	0	0
Executive Management (excl. CEO)	1'248	583	112	1'943	0	0
Management	**1'698**	**912**	**161**	**2'770**	**0**	**0**

Executive Management decided to contribute the equivalent of 10% of its monthly remuneration for the duration of short work in LEM's main sites, i.e., January to February 2012, to LEM's cost savings efforts in 2011/12. The annual salary had been lowered accordingly.

2011/12

In CHF thousands	Annual salary compensation	Annual bonus compensation[1]	Company's contribution to pension fund	Total compensation	Cash-out for options granted in prior years	Pay-out of PSP shares granted in prior years
François Gabella, CEO	440	414	46	901	0	0
Executive Management (excl. CEO)	1'154	607	103	1'864	730	1'904
Total compensation to Executive Management	**1'594**	**1'021**	**149**	**2'765**	**730**	**1'904**

[1] The annual bonus compensation is shown with the accrual for the performance of the corresponding year, to be paid out in the following year. All other elements are shown as paid out.

Compensation of former members

In financial year 2012/13, no compensation was paid to former members of the Executive Management.

2.3 Shareholdings of Executive Management

Executive Management	31.3.2013			31.3.2012		
In number of shares/options	Number of shares held	Number of options held	Number of shares held by PSP	Number of shares held	Number of options held	Number of shares held by PSP
François Gabella, CEO	360	0	0	300	0	0
Julius Renk, CFO	40	0	0	45	0	0
Luc Colombel, Vice President, Automotive	2'100	0	0	2'100	0	0
Hans-Dieter Huber, Vice-President Industry	1'265	0	0	1'425	0	0
Jean-Marc Peccoux, Vice President, R&D and IP	1'500	0	0	1'500	0	0
Simon Siggen, Vice President, Operations	1'100	0	0	1'450	0	0
Total	**6'365**	**0**	**0**	**6'820**	**0**	**0**

Locomotive

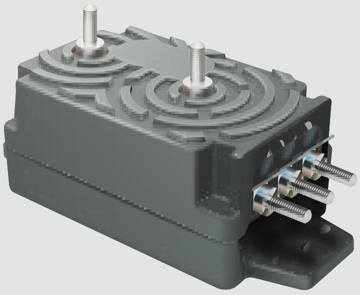
A locomotive obtains energy from the line over the pantograph (1) on the roof. Usually in Europe this is 15kV or 25kV AC voltage. The second connection is on earth connected over the wheels to the locomotive.

Some locomotives are able to run in different systems. The Eurostar, for example, is able to run with four different voltages: 25kV/AC/50Hz, 3kV DC, 1.5kV DC, and 750V DC. From the pantograph the energy flows into a transformer (2), which transforms the voltage to 2.8kV or lower. After, a rectifier transforms the voltage from AC to DC.

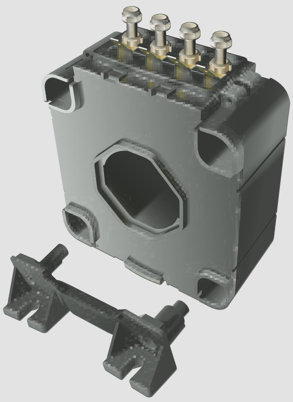
Voltage and current transducers are used to measure the current and the voltage on the secondary side of the transformer and on the DC-side. Inverters (3) are used to transform the energy into the right voltage and current to drive the motors (4), usually one motor per axis or every second axis. Special differential transducers are implemented at the secondary side of the transformer to detect any leakage current flowing in the train.

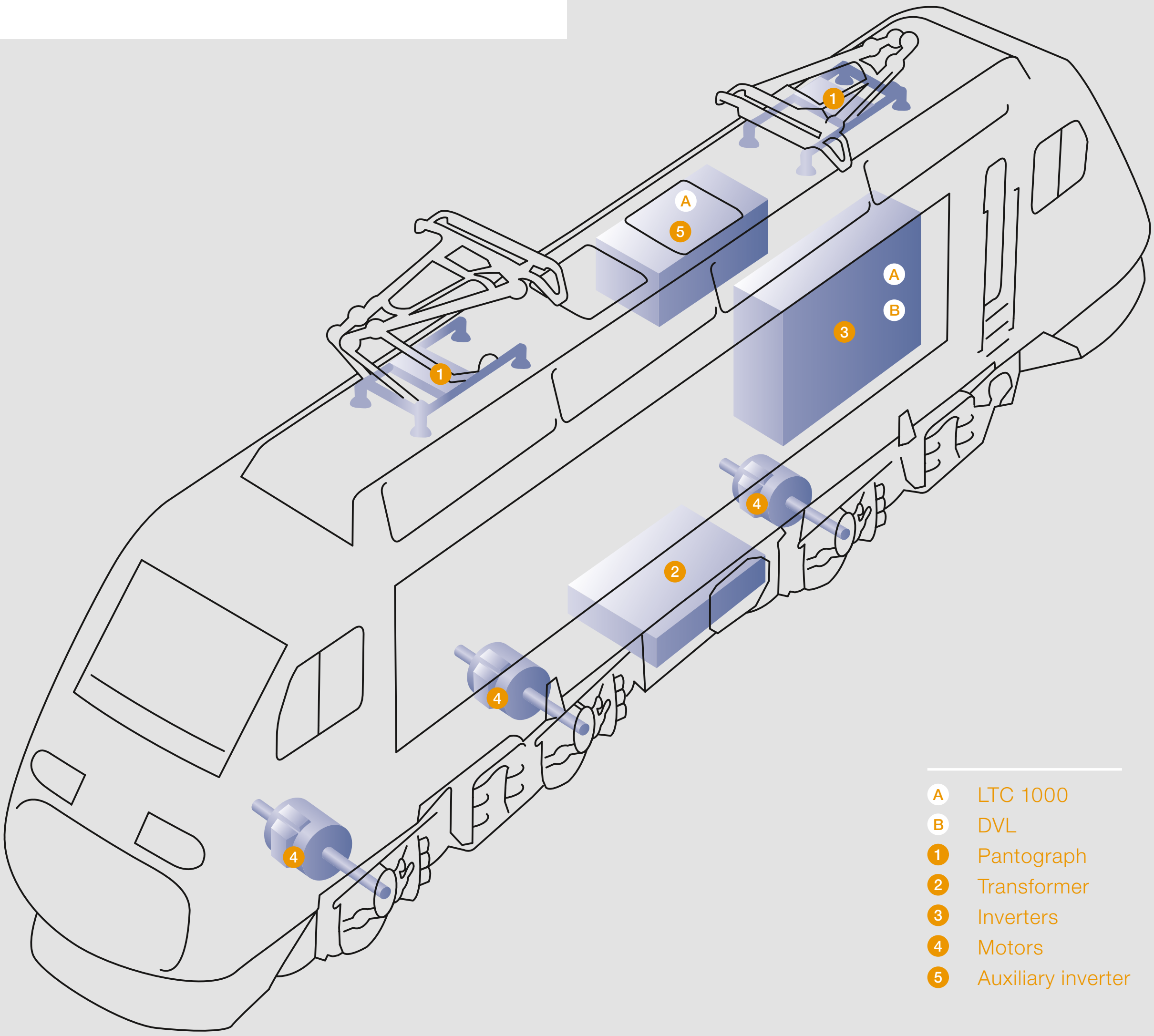
Besides the main drive, additional inverters are used for heating, air-conditioning and ventilation. They are called auxiliary inverters (5) and normally placed under the roof of the locomotive. Transducers are used to measure the motor currents and to optimize their efficiency.

DVL



LTC 1000





Financial Review

Sales

LEM's sales decreased 0.6% to CHF 235.0 million in financial year 2012/13. At constant exchange rates, sales would have decreased 3.7%. The favorable currency impact stems from the depreciation of the CHF against the USD, the CNY, and the JPY, on a yearly average.

Gross margin

The gross margin increased 2.9 percentage points to 42.0%. The main reasons for this development are that continued operating savings in cost of goods sold and the above-mentioned favorable foreign currency impacts more than compensated for the price erosion. In 2012/13 the gross margin included a restructuring charge of CHF 1.8 million linked to the announced relocation of production lines to Bulgaria; in financial year 2011/12 it included an impairment charge of CHF 2.1 million on production lines.

Operating expenses

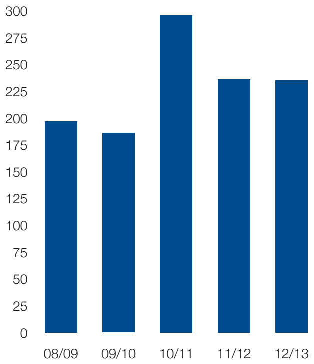
Operating expenses (including R&D) of CHF 57.6 million decreased by 0.9% compared to the previous year, mainly driven by cost saving measures and including a CHF 0.1 million restructuring charge. As a percentage of sales, the ratio slightly decreased from 24.6% to 24.5%.

R&D expenses increased 9.4% in 2012/13 to CHF 14.7 million (prior year CHF 13.4 million). R&D cost as a percentage of sales increased from 5.7% in prior year to 6.2% for the current financial year, expressing management's commitment to foster innovation at LEM.

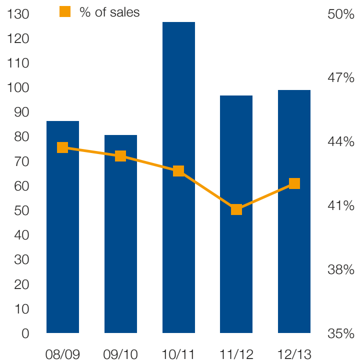
	April to March	
In CHF thousands	2012/13	2011/12*
Sales	234'953	236'334
Cost of goods sold	(136'309)	(144'035)
Gross margin	**98'644**	**92'299**
Sales expense	(22'355)	(23'335)
Administration expense	(20'720)	(21'593)
Research & development expense	(14'676)	(13'412)
Other expense	(153)	(84)
Other income	296	296
Operational EBIT	**41'036**	**34'171**
Additional SOP costs/income	0	315
EBIT	**41'036**	**34'486**
Financial expense	(101)	(359)
Financial income	96	101
Foreign exchange effect	(1'484)	(1'704)
Profit before taxes	**39'547**	**32'524**
Income taxes	(6'931)	(4'037)
Net profit of the period	**32'616**	**28'487**
Attributable to:		
Shareholders	32'616	28'487
Net profit	**32'616**	**28'487**

* Reclassification for comparative information. Please refer to note 2.20 in the consolidated financial statements.

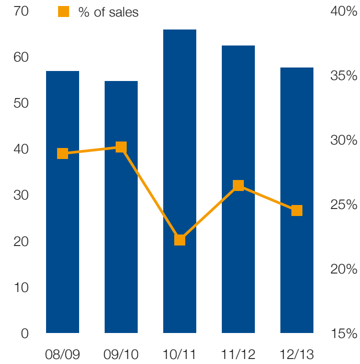
Net sales
In CHF millions



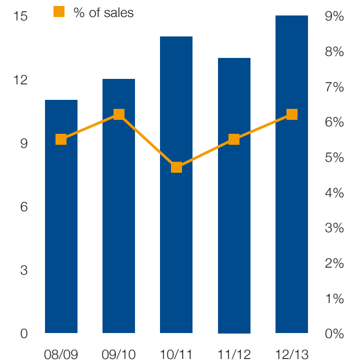
Gross margin
In CHF millions



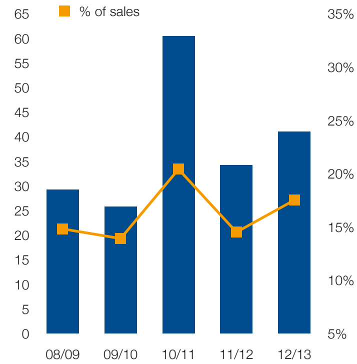
Operating expenses (incl. R&D exp.)
In CHF millions



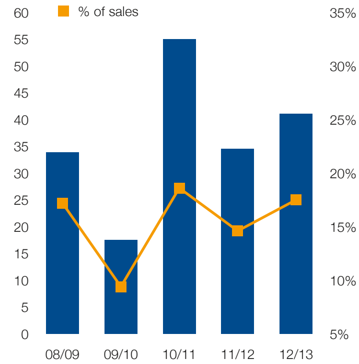
R&D expenses
In CHF millions



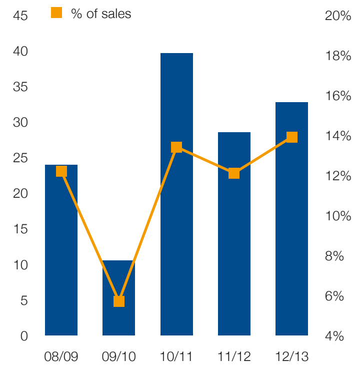
Operational EBIT
In CHF millions



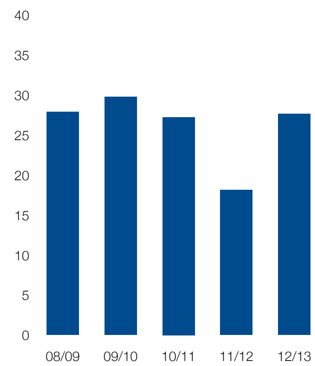
EBIT
In CHF millions



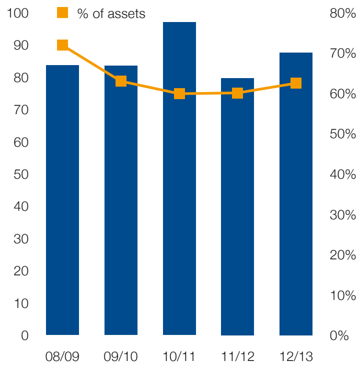
Net earnings
In CHF millions



Net financial assets
In CHF millions



Equity and equity ratio
In CHF millions



Operational EBIT and EBIT

The operational EBIT (before additional SOP costs/income) increased 20.1% to CHF 41.0 million (prior year CHF 34.2 million). The 17.5% operational EBIT margin (prior year 14.5%) is inside our target range of 15 to 20%.

All legacy stock option plans and share plans were closed per 31.3.2012 and generated no impact on the 2012/13 income statement. Operational EBIT is thus equal to EBIT since this financial year. In financial year 2013/14, LEM will abandon the notion of operational EBIT and communicate on the EBIT exclusively.

Financial expenses

Net financial expenses decreased from CHF 2.0 million to CHF 1.5 million in 2012/13, driven by lower interest charges and a lower foreign exchange effect.

Taxes

The tax rate increased 5.1 percentage points, from 12.4% to 17.5% in 2012/13. The expected tax rate was stable compared to prior year, at 17.8%. Last year's one-off items linked mainly to the Swiss-Japanese double taxation agreement had provided an additional 5.4 percentage points saving to the tax rate – an effect that did not repeat in 2012/13.

Net profit for the year

Net profit for the year was CHF 32.6 million, 14.5% higher than last year. Net profit represented 13.9% of sales, an all-time high for LEM.

Balance sheet

LEM reduced its net working capital (current assets minus current liabilities and net cash) to 9.9% of sales, versus 12.3% last year.

Net financial assets (cash minus financial liabilities) increased from CHF 18.1 million to 27.6 million. On 31 March 2013, LEM had no interest-bearing financial liabilities.

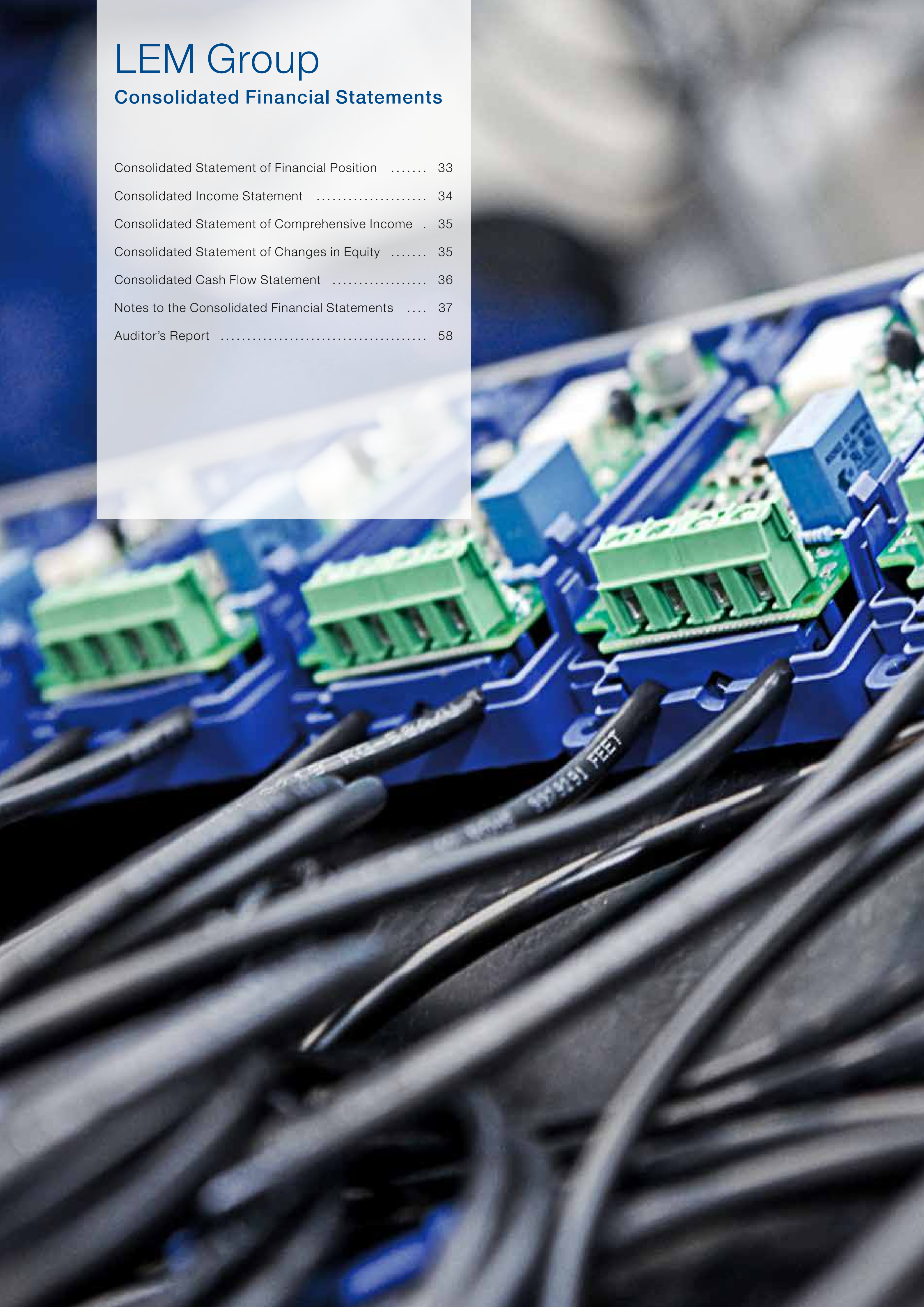
The balance sheet has further strengthened and presents an equity ratio of 62.4% (prior year 60.0%).

Cash flow

Operating cash flow reached CHF 46.2 million and free cash flow CHF 35.8 million. Both are on comparable levels to prior year (CHF 46.7 million and CHF 37.5 million, respectively).

LEM Group

Consolidated Financial Statements



Consolidated Statement of Financial Position

Assets

In CHF thousands	Notes	31.3.2013	31.3.2012
Current assets			
Cash and cash equivalents	7	27'629	21'121
Accounts receivable	4	43'080	42'140
Inventories	5	23'619	26'605
Income tax receivable		1'264	2'009
Other current assets	6	3'250	2'956
Total current assets		**98'841**	**94'831**
Non-current assets			
Deferred tax assets	19	3'828	3'485
Property, plant and equipment	8	25'373	24'173
Intangible assets	9	5'900	6'657
Other non-current assets	10, 22	5'924	3'368
Total non-current assets		**41'026**	**37'683**
Total assets		**139'867**	**132'514**

Liabilities and equity

In CHF thousands	Notes	31.3.2013	31.3.2012
Current liabilities			
Accounts payable	11	16'766	17'863
Accrued expenses		14'900	14'855
Current income tax payable		11'319	8'244
Current provisions	12	3'668	3'043
Current financial liabilities	25		3'000
Other current liabilities	13	1'377	632
Total current liabilities		**48'030**	**47'637**
Non-current liabilities			
Non-current provisions	12	1'250	457
Deferred tax liabilities	19	2'647	4'217
Other non-current liabilities	13	613	642
Total non-current liabilities		**4'510**	**5'316**
Total liabilities		**52'540**	**52'953**
Equity			
Share capital	14	570	570
Treasury shares	14	(765)	(1'984)
Reserves	14	12'250	11'425
Retained earnings		75'272	69'550
Equity attributable to shareholders		**87'328**	**79'561**
Non-controlling interests		0	0
Total equity		**87'328**	**79'561**
Total liabilities and equity		**139'867**	**132'514**

Consolidated Income Statement

In CHF thousands	Notes	April to March 2012/13	April to March 2011/12*
Sales		234'953	236'334
Cost of goods sold	15	(136'309)	(144'035)
Gross margin		**98'644**	**92'299**
Sales expense	15	(22'355)	(23'302)
Administration expense	15	(20'720)	(21'332)
Research & development expense	15	(14'676)	(13'391)
Other expense		(153)	(84)
Other income		296	296
Operating profit		**41'036**	**34'486**
Financial expense	16	(101)	(359)
Financial income	17	96	101
Exchange effect	18	(1'484)	(1'704)
Profit before taxes		**39'547**	**32'524**
Income taxes	19	(6'931)	(4'037)
Net profit for the year		**32'616**	**28'487**
Attributable to:			
Shareholders		32'616	28'487
Non-controlling interests		0	0
Net profit for the year		**32'616**	**28'487**

* Reclassification for comparative information. Please refer to note 2.20

The results of both years are derived from continuing operations.

Earnings per share, in CHF			
Basic and diluted earnings per share	20	28.67	25.11

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

In CHF thousands	April to March 2012/13	2011/12
Net profit for the period recognized in the income statement	**32'616**	**28'487**
Currency translation difference	2'045	174
Total comprehensive income for the period	**34'661**	**28'661**
Attributable to shareholders	34'661	28'661
Attributable to non-controlling interests	0	0

Consolidated Statement of Changes in Equity

Attributable to shareholders

In CHF thousands	Share capital	Treasury shares	Capital reserve	Translation reserve	Share plan reserve	Retained earnings	Total equity
1 April 2011	**575**	**(7'091)**	**19'034**	**(2'676)**	**1'556**	**85'515**	**96'913**
Net profit of the year						28'487	28'487
Other comprehensive income/loss				174			174
Total comprehensive income				*174*		*28'487*	*28'661*
Changes in capital	(5)	3'968	(3'968)			5	0
Dividends paid						(45'461)	(45'461)
Performance Share Plan		1'681	(1'681)		(1'556)	1'465	(91)
Movement in treasury shares		(542)	542			(461)	(461)
31 March 2012	**570**	**(1'984)**	**13'927**	**(2'502)**	**0**	**69'550**	**79'561**
1 April 2012	**570**	**(1'984)**	**13'927**	**(2'502)**	**0**	**69'550**	**79'561**
Net profit of the year						32'616	32'616
Other comprehensive income/loss				2'045			2'045
Total comprehensive income				2'045		32'616	34'661
Dividends paid						(28'374)	(28'374)
Movement in treasury shares		1'219	(1'219)			1'480	1'480
31 March 2013	**570**	**(765)**	**12'708**	**(457)**	**0**	**75'272**	**87'328**

The amount available for dividend distribution is based on LEM Holding SA's shareholders' equity determined in accordance with the legal provisions of the Swiss Code of Obligations.

Consolidated Cash Flow Statement

In CHF thousands	April to March 2012/13	2011/12
Cash flow from operating activities		
Profit before taxes	39'547	32'524
Adjustment for non-cash items		
– Net financial result	1	147
– Derivative financial instruments revaluation	1'302	(198)
– Fair value charges for share-based payments	0	231
– Depreciation and amortization	7'664	8'026
– Impairment loss	374	2'110
– Gain/Loss on disposal of fixed assets	189	866
– Increase / (decrease) of provisions	1'203	1'422
– Movement in pension	(200)	(762)
Interest received	52	101
Interest paid	(53)	(248)
Taxes paid	(5'638)	(6'870)
Payment for cash-settlement of SOP and PSP	0	(1'933)
Cash flow before changes in net working capital	**44'441**	**35'416**
Change in inventory	4'199	8'649
Change in accounts receivable and other current assets	(296)	16'358
Change in payables and other current liabilities	(2'153)	(13'769)
Cash flow from changes in net working capital	**1'750**	**11'238**
Cash flow from operating activities	**46'191**	**46'654**
Cash flow from investing activities		
Investment in fixed assets	(7'180)	(8'419)
Investment in intangible assets	(764)	(550)
(Increase) / decrease in other assets	(2'466)	(151)
Cash flow from investing activities	**(10'410)**	**(9'120)**
Cash flow from financing activities		
Treasury shares acquired (-) / divested (+)	1'480	(461)
Dividends paid to the shareholders of LEM Holding SA	(28'374)	(45'461)
Increase / (decrease) in financial liabilities	(3'000)	3'000
Cash flow from financing activities	**(29'894)**	**(42'922)**
Change in cash and cash equivalents	**5'887**	**(5'388)**
Cash and cash equivalents at the beginning of the period	**21'121**	**26'613**
Exchange effect on cash and cash equivalents	621	(104)
Cash and cash equivalents at the end of the period	**27'629**	**21'121**

Notes to the Consolidated Financial Statements

1 General information

LEM Group (the Group) is a market leader in providing innovative and high-quality solutions for measuring electrical parameters. Its core products – current and voltage transducers – are used in a broad range of applications in drives & welding, renewable energies & power supplies, traction, high-precision, conventional and green cars businesses. The Group has operations in thirteen countries and employs 1'137 people per 31 March 2013. The parent company of LEM Group is LEM Holding SA (the Company), which is a limited company incorporated in Switzerland.
The financial year ends on 31 March (the year). Following the move of LEM Holding's seat on 2 April 2013, the new registered office is Avenue Beauregard 1, CH-1700 Fribourg. The Company has been listed on the SIX Swiss Exchange since 1986.
The Board of Directors approved the consolidated financial statements on 17 May 2013.

2 Summary of significant accounting principles

2.1 Basis of preparation

The consolidated financial statements of LEM Group have been prepared in accordance with the International Financial and Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and comply with Swiss law.
The consolidated financial statements have been prepared using the historical cost convention except that, as discussed in the accounting policies below, certain items like derivatives are recorded at fair value.

In accordance with IAS 1 "Presentation of Financial Statements", the financial information is presented in thousands of CHF. The totals are calculated with the original unit amounts, which could lead to rounding differences. These differences in thousands of units are not changed in order to keep the accuracy of the original data.

2.2 Adoption of new and revised International Financial Reporting Standards and Interpretations

In 2012/13, LEM Group introduced the following revised standards and interpretations:

Standard or interpretation	Title	Impact	Effective date
IAS 12	Deferred tax, recovery of underlying assets – Amendments	None	1 January 2012
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates to First-time Adopters	None	1 July 2011
IFRS 7	Transfers of financial assets – Amendments	None	1 July 2011

LEM Group will adopt the following revised standards and interpretations in the future:

Standard or interpretation	Title	Effective date
IAS 1	Presentation of Items of Other Comprehensive Income – Amendments	1 July 2012
IAS 19	Employee benefits – Revised	1 January 2013
IAS 27	Separate Financial Statements – Revised	1 January 2013
IAS 28	Investments in associates and joint ventures – Revised	1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities – Amendments	1 January 2014
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments	1 January 2013
IFRS 9	Financial Instruments – Classification and Measurement	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 10, IFRS 11, IFRS 12	Amendments to Consolidated Financial Statements, Joint Arrangements and Disclosure of interests in other entities: transition guidance	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments	Annual improvements to IFRS	1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities	1 January 2014

The Group will implement the relevant new standards when they become effective, i.e., for annual periods beginning on or after the effective date stated above. The impact from applying above standards and interpretations has not been evaluated but is expected to have no material effects on the capital, financial position, income or cash flow situation of LEM except IAS 19 – Revised, as explained below.

The amendments that are expected to have the most significant impact include:

- Abandonment of the corridor method; the unrecognized actuarial losses would be registered in the financial statements. As a consequence, an equity adjustment would be booked against the non-current pension asset and a pension liability would be shown. As per the existing IAS 19 evaluation, this would create a negative impact of CHF 6.1 million on the Group equity, which corresponds to 6.9% of the Group equity.
- Replacement of the expected return on plan assets and interests costs on the defined benefit obligation with a single net interest component which is calculated by applying the discount rate to the net defined benefits asset or liability. Also, past-service costs that will be recognized in the period of a plan amendment and unvested benefits that will no longer be spread over a future period until the benefits become vested. These changes will affect the profit for the period and the earnings per share by increasing employee benefit costs of the Group. It will also impact the amounts presented in other comprehensive income, and the net employee benefits liabilities/(assets) in the Balance Sheet. The impact of these latter changes on the profit or loss and on the other comprehensive income has not yet been conclusively determined.

2.3 Summary of critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and related disclosures at the date of the financial statements. These estimates are based on management's best knowledge of current events and actions that the Group may undertake in the future. However, actual results could differ from those estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Impairment of goodwill, other intangible assets and property, plant and equipment

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. Other intangible assets and Property, plant and equipment are assessed according to the same rules. These calculations require the use of estimates in particular to the expected growth of sales, discount rates and development of raw material prices.

Provisions

Provisions are recognized only if the specific criteria under IFRS are met. Provisions represent presumed obligations arising from past events and are recognized only if their amount can be estimated reliably. Nevertheless, provisions are based on assumptions.

Income and other taxes

LEM Group is subject to income taxes in numerous jurisdictions. Judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business.

Employee benefits

The standard requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations and pension plan assets, in particular for defined benefit plans. These are mainly actuarial assumptions such as expected inflation rates, employee turnover, expected return on plan assets and discount rates. Substantial changes in the assumed development of any of these variables may significantly change LEM Group's retirement benefit obligation and pension plan assets.

Valuation of deferred tax assets

The carrying amount of deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2.4 Basis of consolidation

The consolidated financial statements are comprised of LEM Holding SA and of its subsidiaries.

Subsidiaries

Subsidiaries, which are those entities over whose operations the Group has the power to exercise control, which is normally the case when it owns more than one half of the voting rights, are consolidated.
Acquisitions are accounted for using the purchase method. Companies that are acquired or sold during the financial year are included in the Group financial statements up to the date of transfer of control. The costs of purchasing a company are determined as the sum of the fair value of the assets that are to be paid to the seller and the obligations that are entered into, or acquired, on the date of purchase. Identifiable acquired assets, liabilities and contingent liabilities are recognized at their fair value as of the date of their acquisition. The Group's share of the purchase price that exceeds the fair value of the identifiable net assets is recognized as goodwill. The Group's share of the fair value of the identifiable net assets that exceeds the purchase price is shown as gain on bargain purchase on the income statement.
Intra-group assets and liabilities as well as income and expenses are set off against each other.
Also intra-group intermediate profits on inventories and fixed assets are eliminated.

Associates

Investments in associated undertakings are accounted for using the equity method. These are undertakings over which the Group exercises significant influence, but which it does not control.
No associated undertakings exist as per 31 March 2013 and 31 March 2012.

2.5 Foreign currencies

Functional and presentation currency

The consolidated financial statements are presented in Swiss francs as the presentation currency. The subsidiaries use local currencies as their functional currency, which is the currency of the primary economic environment in which they operate.

Foreign currency translation

All assets and liabilities in the balance sheets of subsidiaries that are denominated in the respective functional currencies are translated into Swiss francs at the year-end exchange rate. Items in the income statement and cash flow statement are translated at the average exchange rate for the year. The resulting translation differences are recognized in shareholders' equity. When a company is sold, the cumulative translation differences recognized in shareholders' equity are transferred to the income statement.
The following table summarizes the principal exchange rates that have been used in the translation process.

Currency	Income statement of 2012/13 Average rate in CHF	Income statement of 2011/12 Average rate in CHF	Balance sheet 31.3.2013 Year-end rate in CHF	Balance sheet 31.3.2012 Year-end rate in CHF
BGN	0.626	N/A	0.621	N/A
CNY	0.149	0.138	0.151	0.142
DKK	0.162	0.163	0.163	0.162
EUR	1.210	1.214	1.216	1.204
GBP	1.486	1.407	1.442	1.444
JPY	0.0114	0.0112	0.0101	0.0109
RUB	0.030	0.030	0.031	0.031
USD	0.940	0.882	0.949	0.902

Foreign currency transactions

Foreign currency transactions by subsidiaries are translated at the market rate prevailing at the time. The monetary assets and liabilities are translated at the year-end rates while non-monetary assets are translated at historical rates. Gains and losses arising from the transactions as well as from the translation of monetary assets and liabilities in foreign currencies are recorded as income or expenses in the income statement (except from translation differences arising from a monetary item that forms part of the Group's net investment in a foreign operation, which are included in shareholders' equity).

2.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and cash at postal accounts and bank deposits with an original maturity of three months or less from the date of acquisition, that are readily convertible to known amounts of cash, net of cash overdrafts at sight.

2.7 Inventories

Inventories are stated at the lower of cost or net realizable value. The first-in, first-out (FIFO) method is applied. The cost of finished goods and work in process comprise raw materials, direct labor costs and other costs that can be directly allocated, such as production overhead expenditures. Financing costs are not included in inventories. Provision for write-downs are established when there is an objective indication that the Group will not be able to sell the goods in due time.

2.8 Property, plant and equipment

Property, plant and equipment is stated at cost of acquisition or construction, less depreciation and any impairment. Depreciation is calculated on a linear basis on the following estimated useful life:

Land	nil
Buildings	20–40 years
Machinery and equipment	5–8 years
Tools and moulds	2–5 years
Vehicles	3–5 years
IT equipment	3–5 years

Repairs and renewals are charged to the income statement when the expense is incurred. Subsequent expenditure on an item of tangible fixed assets is capitalized at cost only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

2.9 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions is reported in the balance sheet as an intangible asset and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Research and development

Research costs are written off as incurred. Development costs are capitalized as intangible assets only if it is probable that future economic benefits will flow to the Group. Such development costs are capitalized and written off over the life of the product or process.

Other intangible assets

Other intangible assets with definite useful lives are carried at cost less amortization and any impairment.
Expenditure on computer software, acquired patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives, not exceeding five years.

2.10 Impairment of tangible fixed assets and intangible assets

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.
For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash-flows (cash-generating unit).
The value in use is calculated based on the estimated future cash-flows expected to result from the use of the asset and eventual disposal, discounted using an appropriate non-current interest rate.
Goodwill is tested for impairment annually (at 31 March) and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Impairment losses relating to goodwill cannot be reversed in future years.

2.11 Financial assets

Financial assets can comprise cash, receivables, accrued income, marketable securities and derivative financial instruments.

Accounts receivable are carried at original invoice amount less an allowance made for doubtful accounts based on a review of all outstanding amounts at the year-end. Allowances for doubtful accounts are established when there is an objective indication that the Group will not be able to collect the amounts due. Allowances for doubtful accounts are written off when identified.

2.12 Derivative financial instruments

Derivative financial instruments are measured at fair value. Any gains and losses arising from changes in fair value on derivatives are taken directly to the income statement which means that the Group does not apply hedge accounting.
Derivative financial instruments are shown as part of other current assets and other current liabilities. In case the maturity is more than one year, derivative financial instruments are recognized under other non-current assets or other non-current liabilities.

The Group uses derivative financial instruments to hedge foreign exchange risks of forecasted transactions. Derivative financial instruments can comprise forward exchange contracts and option-based structures.

2.13 Financial liabilities

Financial liabilities comprise bank loans, payables, accrued expenses and derivative financial instruments at the end of the period.
Financial liabilities that are due within 12 months after the balance sheet date are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability until more than 12 months after the balance sheet date.

2.14 Leases

In the years under review LEM Group does not hold any finance lease.
Rentals payable under operating leases are charged to the income statement as incurred.

2.15 Employee benefits

The Swiss subsidiaries provide a defined benefit plan for employees; the other subsidiaries provide defined contribution plans. In both cases the charges are included in the related periods in the personnel expenses of the various functions where the employees are located.

Defined benefit plan

A qualified independent actuary values the funds on an annual basis. The obligation and costs of pension benefits are determined using the projected unit credit method. Past service costs are recognized on a straight-line basis over the average period until the amended benefit becomes vested. Gains or losses on the curtailment or settlement of pension benefits are recognized when the curtailment or settlement occurs. Actuarial gains or losses are amortized based on the expected average remaining working time of the participating employees, but only to the extent that the net cumulative unrecognized amounts exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets at the end of the previous year. In accordance with IFRIC 14, any assets resulting from surpluses in defined benefit plans are limited to the value of the maximum future savings from reduced contributions. Liabilities are fully provisioned.

Defined contribution plan

The subsidiaries abroad sponsor defined contribution plans based on local practices and regulations.

LEM Incentive System

The LEM Incentive System (LIS) consists of a part 1, which is related to the individual's performance, and a part 2, which is related to the performance of LEM Group. The LIS part 2 is an annual bonus which is based on the Economic Value Added (EVA) performance of LEM evaluated over the three previous fiscal years. Both elements are cash settled and the bonus payments are made in the first quarter of the following fiscal year. The estimated payments are accrued for per year-end.

2.16 Provisions and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Claims and litigations

The Group recognizes the estimated liability to replace products still under warranty at the balance sheet date. This position is calculated based on past history of the level of repairs and replacements. Additional specific provisions are booked when required.

Restructuring

A constructive obligation to restructure arises only when an entity has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented;

and raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent liabilities

Contingent liabilities arise from past events where the outcome depends on future events. As the probability either cannot be measured reliably or the probability for a subsequent outflow lies below 50%, contingent liabilities are not recognized in the balance sheet but are described in the notes.

2.17 Share capital

LEM Holding SA has only ordinary registered shares. Dividends on ordinary shares are recognized in equity in the period in which they are declared.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Neither gain nor loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in retained earnings.

2.18 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue from the sale of products comprises all revenues that are derived from sales of products to third parties after deduction of price rebates and value-added tax. Revenues from the sale of products are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the products.

2.19 Income taxes and deferred taxation

Income taxes

Income taxes comprise all current and deferred income taxes, including the withholding tax payable on profit distributions within the Group. Income taxes are recognized in the consolidated income statement except for income taxes on transactions that are recognized directly in shareholders' equity.

Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are determined using tax rates that apply, or have been announced, on the balance sheet date in the countries where the Group is active. Tax losses carried forward are recognized as deferred tax assets to the extent that it is probable that tax profit will be available in the future against which the tax losses carried forward can be utilized. Deferred tax assets and liabilities are offset against each other if the corresponding income taxes arise by the same tax authority and a legally enforceable right for offsetting exists.

2.20 Change in the classifications of items in the consolidated income statement

In the frame of the continuous improvement of its processes and systems, LEM has reviewed the definition of each line of its consolidated income statement and reached the conclusion that some items should be reclassified in order to provide a more relevant financial information about its operations.

These reclassifications are related to the following items:

- Prior to the reclassification, management compensation had partially been shown in administration expenses and partially in the lines to which the managers contributed. After the reclassification, all management compensation is shown in the line to which the managers contribute.
- Facility cost (rent, energy, etc.) has been attributed into the lines according to the resources used by each activity;
- Expenses of operation support teams had previously been shown partially in administration expenses. After the reclassification, these expenses are fully shown in cost of goods sold.

The impacts on the 2011/12 consolidated income statement by category of changes are disclosed below:

In CHF thousands	Management compensation	Facility cost	Operation support cost	Total impact
Sales				0
Cost of goods sold	(1'649)	(1'295)	(1'243)	(4'187)
Gross margin				**(4'187)**
Sales expense	(1'401)	(229)	159	(1'471)
Administration expense	3'650	1'395	1'050	6'096
Research & development expense	(601)	128	34	(438)
Other expense				0
Other income				0
Operational EBIT	**0**	**0**	**0**	**0**

3 Segment information

Business segment information

In CHF thousands	Industry 2012/13	Industry 2011/12	Automotive 2012/13	Automotive 2011/12	LEM Group 2012/13	LEM Group 2011/12
Income Statement						
Sales	199'967	208'292	34'986	28'042	234'953	236'334
EBITDA	43'387	39'490	5'687	5'132	49'075	44'622
Operating profit	36'595	30'257	4'441	4'229	41'036	34'486
Net financial expenses					(1'489)	(1'962)
Taxes					(6'931)	(4'037)
Net profit for the year					32'616	28'487
Depreciation and amortization:						
Tangible assets	5'209	5'902	1'121	898	6'330	6'800
Intangible assets	1'329	1'221	5	5	1'335	1'226
Impairment loss	254	2'110	120		374	2'110
Total	**6'792**	**9'233**	**1'246**	**903**	**8'039**	**10'136**
Significant non-cash items						
(Increase) / decrease of liabilities for share-based payments	0	283	0	32	0	315
Balance sheet						
Segment assets	86'184	90'042	15'312	12'203	101'496	102'245
Unallocated assets					38'371	30'269
Of which cash and cash equivalents					*27'629*	*21'121*
Of which other unallocated assets					*10'742*	*9'148*
Total assets	**86'184**	**90'042**	**15'312**	**12'203**	**139'867**	**132'514**
Segment liabilities	29'604	34'331	3'624	3'153	33'227	37'484
Unallocated liabilities					19'312	15'469
Of which income tax payable					*11'319*	*8'244*
Of which deferred withholding tax liabilities					*1'703*	*2'407*
Of which other unallocated liabilities					*6'290*	*4'818*
Total liabilities	**29'604**	**34'331**	**3'624**	**3'153**	**52'540**	**52'953**
Capital expenditures:						
Tangible assets	4'459	7'855	2'722	564	7'180	8'419
Intangible assets	764	537	0	13	764	550
Total assets	**5'222**	**8'392**	**2'722**	**577**	**7'944**	**8'969**

Geographical information

In CHF thousands	USA 2012/13	USA 2011/12	China 2012/13	China 2011/12	Germany 2012/13	Germany 2011/12	Japan 2012/13	Japan 2011/12	Italy 2012/13	Italy 2011/12	Switzerland 2012/13	Switzerland 2011/12	Rest of the world 2012/13	Rest of the world 2011/12	LEM Group 2012/13	LEM Group 2011/12
Sales	44'317	40'489	42'763	37'041	36'044	46'311	24'092	24'649	14'964	12'356	4'253	5'133	68'520	70'355	234'953	236'334
Non-current assets			14'594	13'696			5'458	6'825			19'691	15'203	1'283	1'959	41'026	37'683

For management purposes, LEM Group is organized into two operating segments, Industry and Automotive. The Industry segment develops, manufactures and sells electronic components called transducers for the measurement of current and voltage of various industrial applications. The Automotive segment develops, manufactures and sells transducers for applications in automotive markets.

Non-allocated assets correspond to cash, non-current financial receivables as well as deferred tax assets. Non-allocated liabilities comprise bank borrowings, income tax payable and deferred tax liabilities.

Transactions between the subsidiaries and/or business segments are conducted at arm's length.

The depreciation and amortization charge for the Industry segment at 31 March 2012 included the impairment of production lines specific to several families of products for CHF 2'110 thousand. Please refer to the note 8 Property, plant and equipment for more detail.

4 Accounts receivable

In CHF thousands	31.3.2013	31.3.2012
Accounts receivable – trade	39'790	39'419
Allowance for doubtful accounts	(1'066)	(1'711)
Total accounts receivable – trade	38'724	37'708
Other receivables	4'356	4'431
Total	**43'080**	**42'140**

Movements of allowance for doubtful accounts

In CHF thousands	2012/13	2011/12
Opening position	**1'711**	**1'229**
Additions charged / (reversals credited) to income statement	(560)	723
Amounts written off	(107)	(235)
Foreign exchange effect	22	(6)
Total	**1'066**	**1'711**

Aging analysis of accounts receivable

In CHF thousands	Not due	<30 days	31–90 days	91–180 days	>180 days	Total
31 March 2013						
Accounts receivable – trade	30'117	5'758	2'616	508	792	39'790
Allowance for doubtful accounts			(151)	(115)	(800)	(1'066)
Other receivables	3'985	73	275	5	18	4'356
Total	**34'102**	**5'831**	**2'740**	**398**	**10**	**43'080**
31 March 2012						
Accounts receivable – trade	26'376	8'204	2'004	1'130	1'705	39'419
Allowance for doubtful accounts			(125)	(424)	(1'162)	(1'711)
Other receivables	4'381	51				4'432
Total	**30'757**	**8'255**	**1'879**	**706**	**543**	**42'140**

The allowance for doubtful accounts is computed as a percentage of aged balances. No receivables have been individually impaired.

5 Inventories

In CHF thousands	31.3.2013	31.3.2012
Raw material	10'931	11'534
Work in progress	1'374	2'682
Finished goods and goods for resale	11'314	12'389
Total	**23'619**	**26'605**

Above total inventories include provisions for write-down of CHF 4'082 thousand (2011/12 CHF 4'970 thousand).

6 Other current assets

In CHF thousands	31.3.2013	31.3.2012
Advances to suppliers	490	960
Prepayments and accrued income	1'135	1'809
Derivative financial instruments	0	187
Pensions current assets	1'615	0
Other current assets	10	0
Total	**3'250**	**2'956**

For further information on derivative financial instruments, see note 25.

7 Cash and cash equivalents

For the purpose of the consolidated statement of cash flow, cash and cash equivalents comprise the following:

In CHF thousands	31.3.2013	31.3.2012
Cash and cash equivalents	27'629	21'121
Total	**27'629**	**21'121**

8 Property, plant and equipment

In CHF thousands	Land and buildings	Machinery and equipment	Total
Net book value 1 April 2012	**197**	**23'976**	**24'173**
Foreign exchange effect	(12)	926	914
Investment		7'180	7'180
Disposal		(189)	(189)
Impairment gain (loss)		(374)	(374)
Depreciation charge for the year	(19)	(6'311)	(6'330)
Net book value 31 March 2013	**165**	**25'209**	**25'373**
At cost of acquisition	409	74'280	74'689
Accumulated depreciation	(244)	(49'072)	(49'315)
Net book value 31 March 2013	**165**	**25'209**	**25'373**
Net book value 1 April 2011	**306**	**25'306**	**25'612**
Foreign exchange effect	(5)	(205)	(210)
Investment		8'419	8'419
Disposal		(738)	(738)
Impairment gain (loss)		(2'110)	(2'110)
Depreciation charge for the year	(104)	(6'696)	(6'800)
Net book value 31 March 2012	**197**	**23'976**	**24'173**
At cost of acquisition	441	68'434	68'875
Accumulated depreciation	(244)	(44'458)	(44'702)
Net book value 31 March 2012	**197**	**23'976**	**24'173**

LEM Group owns production lines which are primarily used to manufacture goods for the solar market. The slump in the solar market demand has given the Group an indication to perform an impairment test per 31.3.2012.
The recoverable amount of the machines has been determined based on a value-in-use calculation using cash flow projections from management estimates. The pre-tax discount rate applied to the cash flow projections was 8.5%.
As a result of the analysis, management had recognized an impairment charge of CHF 2'110 thousand against the value of the machines previously carried at CHF 6'646 thousand in 2011/12, which was recorded in cost of goods sold in the Industry segment.

9 Intangible assets

In CHF thousands	Goodwill	Patents	Other intangible assets	Total
Net book value 1 April 2012	**3'568**	**2'312**	**777**	**6'657**
Foreign exchange effect	(186)			(186)
Investment			764	764
Disposal				0
Other movements	(32)		32	0
Amortization charge for the year		(992)	(343)	(1'335)
Net book value 31 March 2013	**3'350**	**1'320**	**1'230**	**5'900**
At cost of acquisition	5'064	4'950	4'963	14'977
Accumulated amortization	(1'714)	(3'630)	(3'733)	(9'077)
Net book value 31 March 2013	**3'350**	**1'320**	**1'230**	**5'900**
Net book value 1 April 2011	**3'601**	**3'302**	**893**	**7'796**
Foreign exchange effect	(33)		(18)	(51)
Investment			550	550
Disposal			(128)	(128)
Other movements			(284)	(284)
Amortization charge for the year		(990)	(236)	(1'226)
Net book value 31 March 2012	**3'568**	**2'312**	**777**	**6'657**
At cost of acquisition	5'291	4'952	4'204	14'447
Accumulated amortization	(1'723)	(2'640)	(3'427)	(7'790)
Net book value 31 March 2012	**3'568**	**2'312**	**777**	**6'657**

The entire goodwill of LEM Group is from the acquisition of NANA in 2000/01 and is allocated to the cash-generating unit LEM Japan KK. The goodwill relates to the Industry segment. The recoverable amount has been determined based on value-in-use calculations. These calculations use cash flow projections of five years based on financial business plans and budgets approved by management. The projections include assumptions concerning revenue growth and expected operating costs. Revenue growth is projected at 1% and operating costs were estimated based on the experience of management. The pre-tax discount rate used within these cash flow calculations is 10.5% (2011/12 8.5%) and is based on the weighted average cost of capital of a peer group. The carrying value of the cash-generating unit including goodwill was compared to the value in use and no impairment was found for the year ended 31 March 2013.

10 Other non-current assets

In CHF thousands	31.3.2013	31.3.2012
Non-current pension assets	5'186	2'873
Other non-current assets	738	495
Total	**5'924**	**3'368**

11 Accounts payable

In CHF thousands	31.3.2013	31.3.2012
Total accounts payable – trade	15'172	16'319
Other payables	1'594	1'544
Total	**16'766**	**17'863**

12 Provisions

In CHF thousands	Employee and termination benefits	Claims and litigations	Restructuring	Total
Balance 1 April 2012	**0**	**3'047**	**453**	**3'500**
Additional provisions		1'035	1'930	2'965
Unused amounts reversed		(292)	(80)	(372)
Utilized during the year		(853)	(372)	(1'225)
Foreign exchange effect		150	(101)	49
Balance 31 March 2013	**0**	**3'087**	**1'830**	**4'917**
Of which current				*3'668*
Of which non-current				*1'250*
Balance 1 April 2011	**580**	**1'945**	**0**	**2'525**
Additional provisions		1'911	453	2'364
Unused amounts reversed		(486)		(486)
Utilized during the year		(330)		(330)
Foreign exchange effect		7		7
Other movements	(580)			(580)
Balance 31 March 2012	**0**	**3'047**	**453**	**3'500**
Of which current				*3'043*
Of which non-current				*457*

Employee and termination benefits

Employee and termination benefits contain obligations which are required in certain countries.

Claims and litigations

Provisions for claims and litigations cover expected warranty claims which are not covered by insurances. The provisions have been estimated based on past experience and the risk assessment of management. The warranty provision is expected to be used over the next five years.

Transfer of activity

On 8 February 2013, LEM has announced the launch of a new production plant in Sofia, Bulgaria. As a continuation of a strategy initiated in 2004, LEM will continue to relocate production lines from the plants in Machida, Japan, and Geneva, Switzerland, to low-cost countries. Over the next years, the operations in Japan will be significantly reduced and concentrate on the local Japanese market. In Switzerland, the operations will be progressively reduced and focused on high-complexity / high-precision products for worldwide markets. In parallel, LEM's site in Switzerland will be reinforced with continued investment in R&D and marketing.

LEM has announced the relocations to the concerned employees in LEM Switzerland and LEM Japan following the press release. A CHF 1'930 thousand provision has been charged to the income statement at 31.3.2013 in relation with the above-mentioned relocations of activity. After foreign exchange effect, the provision position amounts to CHF 1'830 thousand at 31.3.2013.

On 20 March 2012, LEM had launched the relocation of the high-precision manufacturing and R&D activity from Denmark to Geneva. A CHF 370 thousand provision had been booked at 31.3.2012 in relation with this transfer of activity. This provision has been fully used in 2012/13.

13 Other liabilities

In CHF thousands	31.3.2013	31.3.2012
Post-employment benefit plans	456	634
Derivative financial instruments	1'115	0
Other liabilities	419	640
Total	**1'991**	**1'274**
Of which current	*1'377*	*632*
Of which non-current	*613*	*642*

14 Equity

Share capital

There is neither authorized nor conditional share capital outstanding.
The nominal share capital of CHF 570'000 comprises 1'140'000 registered shares, each with a nominal value of CHF 0.50.

Investments in shares of LEM Holding SA held by the Group are classified as treasury shares and are accounted for at historical cost. Treasury shares are not entitled to dividends.

On 4 July 2011, LEM Holding reduced its capital by 10'000 shares of CHF 0.5 each by the cancellation of the 10'000 own shares previously acquired for a total amount of CHF 3.97 million.

Movement of treasury shares

In number of shares, CHF	Number of shares	Average purchase price	Total in CHF thousands
Balance 1 April 2012	**4'588**	**432.39**	**1'984**
Movement	(3'272)	372.63	(1'219)
Balance 31 March 2013	**1'316**	**581.00**	**765**
Ordinary dividend per share	30		
Extraordinary dividend per share	0		
Balance 1 April 2011	**18'247**	**388.62**	**7'091**
Movement	(13'659)	373.91	(5'107)
Balance 31 March 2012	**4'588**	**432.39**	**1'984**
Ordinary dividend per share	25		
Extraordinary dividend per share	0		

Per 31.3.2012, the Group held 4'588 remaining treasury shares.
In the first half year 2012/13, 3'419 treasury shares on LEM's own account have been sold for a total amount of CHF 1'619 thousand.
During the year 2012/13, LEM acquired 147 treasury shares for a total amount of CHF 87 thousand, in the frame of its market-making contract (2011/12 1'169 shares for CHF 542 thousand).

The dividend to be paid will be proposed by the Board of Directors to the shareholders of the Group at the ordinary shareholders' meeting 27 June 2013.

15 Staff cost

In CHF thousands	2012/13	2011/12*
Production	(23'382)	(22'887)
Sales	(14'912)	(12'880)
Administration	(10'987)	(14'346)
Research & development	(9'792)	(9'199)
Change in liability for stock option plans and Performance Share Plan		(190)
Total	**(59'073)**	**(59'503)**
Salaries and wages	(41'036)	(40'496)
Other personnel costs	(14'898)	(14'829)
Temporary employee costs	(3'139)	(3'987)
Change in liability for stock option plans and Performance Share Plan	0	(190)
Total	**(59'073)**	**(59'503)**

*The 2011/12 staff cost amount has been increased by CHF 5.1 million compared to the one disclosed in the 2011/12 annual report which did not include the full year information for one of our subsidiaries.

Number of employees at the end of the financial year

In full-time equivalents (FTEs)	31.3.2013	31.3.2012
Permanent employees	1'038	1'100
Temporary employees	87	25
Apprentices	12	11
Total	**1'137**	**1'136**

Other personnel costs comprise the expenses for defined contribution plans of CHF 298 thousand (2011/12 CHF 418 thousand). See accounting policies 2.15 Employee benefits, 2.16 Provisions and contingent liabilities.

16 Financial expense

In CHF thousands	2012/13	2011/12
Interest expenses	(53)	(248)
Other financial expenses	(48)	(111)
Total	**(101)**	**(359)**

17 Financial income

In CHF thousands	2012/13	2011/12
Interest income on cash	96	101
Total	**96**	**101**

18 Foreign exchange effect

In CHF thousands	2012/13	2011/12
Exchange gains / (losses)	148	(2'170)
Fair value revaluation on derivatives	(1'302)	198
Gains / (losses) on derivative[1]	(330)	268
Total	**(1'484)**	**(1'704)**

[1] Position includes cost of derivative hedging

19 Income taxes

In CHF thousands	2012/13	2011/12
Current income taxes	(8'958)	(9'156)
Deferred taxes relating to the origination and reversal of temporary differences	1'846	2'441
Previously unrecognized deferred tax asset used to reduce current tax expense	0	29
Previously unrecognized deferred tax asset used to reduce deferred tax expense	0	420
Deferred tax income resulting from reduction in tax rates	0	888
Adjustment recognized in the period for current tax of prior year	181	1'341
Total	**(6'931)**	**(4'037)**

Since the Group operates globally, it is liable for income taxes in various tax jurisdictions. Judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Differences between the final tax outcome and the amounts that were initially recorded impact the income and deferred taxes in the period in which such determinations are made. The Group calculates its expected average tax rate as a weighted average of the tax rates in the tax jurisdictions in which the Group operates.

The Group’s effective tax rate differs from the Group’s average expected tax rate as follows:

In %	2012/13	2011/12
Group's average expected income tax rate	15.5	16.5
Group's average expected withholding tax rate	2.3	1.3
Group's average expected tax rate	**17.8**	**17.8**
Tax effect of		
_ expense not deductible for tax purposes	0.0	1.8
_ permanent differences	0.2	1.1
_ effect of changes in tax rates on deferred taxes	0.1	(2.7)
_ adjustment in respect of previous periods’ income tax	(0.4)	(4.1)
_ recognition of previously unrecorded tax losses	0.0	(1.4)
_ other differences	(0.2)	(0.1)
Group’s effective tax rate	**17.5**	**12.4**

LEM has taken the decision to repatriate all available dividends from its subsidiaries in the foreseeable future. Unrecoverable withholding taxes are considered part of the expected tax rate. Deferred income tax liabilities have been established for unrecoverable withholding taxes that would be payable on the unremitted earnings of foreign subsidiaries.

Following its qualification as High/New Technology Enterprise (HNTE) in China, LEM China enjoys reduced income tax rates from 2011 to 2013. The status will need to be confirmed for 2012 and 2013. Depending on the legal situation in the People’s Republic of China, this status can possibly be renewed for 2014 to 2016. As per 31.3.2013, the confirmation for 2012 and 2013 is still under consideration by the Chinese tax authorities. On the basis of the existing documentation, management considers that the chance of obtaining the confirmation for 2012 and 2013 is significantly higher than the risk of losing the HNTE status. LEM China has therefore been reported with a 15% tax rate.

At 31.3.2012, following the double taxation agreement between Japan and Switzerland, no withholding tax on dividends was due anymore. The liability booked at 31.3.2011 for CHF 1.2 million was reversed and had generated an income in the deferred tax movement of the year.

Given the stable expected tax rate and the non repetition of the one-off adjustments for prior periods income taxes registered in financial year 2011/12, the effective tax rate has increased by 5.1 percentage points in financial year 2012/13.

Deferred tax assets and liabilities

Deferred taxes have been calculated on the following balance sheet positions:

In CHF thousands	31.3.2013	31.3.2012
Assets	**1'597**	**759**
_ Accounts receivable	(278)	(150)
_ Inventories	1'157	368
_ Property, plant and equipment	1'172	1'590
_ Intangible assets	1'043	(633)
_ Other financial assets	(1'725)	(603)
_ Other assets	228	187
Liabilities	**(416)**	**(1'491)**
_ Provisions	641	431
_ Others	646	485
_ Withholding tax on dividends	(1'703)	(2'407)
Total	**1'181**	**(732)**
The balance sheet contains the following:		
_ Deferred tax assets	3'828	3'485
_ Deferred tax liabilities	(2'647)	(4'217)
Net liabilities	**1'181**	**(732)**

Unused tax loss carry-forwards not recognized in the balance sheet expire		
In CHF thousands	31.3.2013	31.3.2012
_ in the next 5 years	0	0
_ without date of expiration	0	101
Total	**0**	**101**

20 Earnings per share

	2012/13	2011/12
Basic earnings per share		
Net profit for the year attributable to LEM shareholders – in CHF thousands	32'616	28'487
Ordinary number of shares at the beginning of the year	1'140'000	1'150'000
Ordinary number of shares after capital reduction	1'140'000	1'140'000
Weighted average number of ordinary shares	1'140'000	1'142'575
Weighted average number of treasury shares	2'520	8'080
Weighted average number of shares outstanding	1'137'480	1'134'495
Earnings per share – basic in CHF	28.67	25.11

21 Related parties

Related parties are the Board of Directors and the Executive Managers as defined in the Corporate Governance guidelines. The compensation to the Board of Directors is paid as a fixed fee in cash. The compensation for the Executive Management includes base salary, a performance-related bonus (LIS), bonus and post-employment benefits. In 2011/12 and 2012/13, no termination benefits have been paid. The base salary is the employee's compensation before deduction of the employee's social security contributions. Bonus payments are effected in cash.

Compensation of the Board of Directors		
In CHF thousands	2012/13	2011/12
Base salary	(740)	(685)
Additional fees	(130)	(20)
Total	**(870)**	**(705)**

Compensation of the Executive Management		
In CHF thousands	2012/13	2011/12
Base salary	(1'698)	(1'594)
Bonus	(912)	(1'021)
Post employment benefits	(161)	(149)
Termination benefits	0	0
Change in liability for stock option plans and PSP	0	165
Total	**(2'770)**	**(2'599)**

For details on the compensation of the Board of Directors and of the Executive Management, please refer to note 11 in the notes to the financial statements of LEM Holding SA. Also, see accounting policies 2.15 Employee benefits and note 2.16 Provisions and contingent liabilities.

Discontinued plans

During May 2009, the Board of Directors decided not to issue further equity based compensation plans. The company administrated the legacy programs until the expiry of the last plan (SOP 6) in March 2012 and the settlement of the Performance Share Plan in the first quarter of 2011/12. CEO François Gabella and CFO Julius Renk did not participate in the stock option program and in the PSP.

2011/12	Grant Date	Number of options outstanding 1.4.2011	Number of options issued	Number of options cancelled	Number of options exercised	Number of options outstanding 31.3.2012	Exercise price in CHF	Fair value at grant in CHF	Fair value 31.3.2012 in CHF	Exercise period from	Exercise period until
SOP 6	1.4.2007	4'952	0	0	(4'952)	0	240.52	64.92	N/A	1.4.2010	31.3.2012
Total		**4'952**	**0**	**0**	**(4'952)**						

In April 2007 the Board of Directors issued the stock option plan SOP 6 for the management team and the non-executive Board of Directors. The plan was equity settled but has been changed to cash settled as of 31 December 2007. The plan gave the right to cash the counter value of one share at the predetermined exercise price, which corresponded to the average share price of the fourth quarter 2006/07. The number of stock options granted depended on the performance of LEM's share price compared to the SIX Index for Small and Mid Cap Companies in Switzerland for the financial year 2006/07. The vesting period was three years. The details of the contractual terms of the option plan can be seen in the table above. During the financial year 2011/12, 4'952 options were exercised. The average share price for the exercised options was CHF 499.66. At 31 March 2012, the SOP6 has expired and all options have been exercised.

On 27 June 2008, the Board of Directors decided to initiate a Performance Share Plan for members of the management, whereby the number of shares granted would depend on the achievement of certain targets during a vesting period. The targets were determined by an Economic Value Added (EVA) model, which was expected to reflect the market growth of LEM. At the same time, the Board of Directors approved an initial plan in favor of 30 members of management with a three years vesting period and for which the multiple for the eventual payout could vary between m=0.5 and m=2.0. The PSP expenses have been recorded in the income statement straight-line over the three years vesting period. The expense was adjusted at every reporting date based on the expected number of shares that the participants would receive at the end.

Terms of PSP

	At grant
m (multiple)	1.0
Number of Shares expected to be issued	8'360
Vesting Period	3 years
Allocated to recepients	27 June 2008
Fair value per unit (CHF)	303.50

As of 31 March 2011, based on a pay-out multiple m=0.92 and on the number of recipients, the company booked a provision of CHF 1'556 thousand, of which CHF 631 thousand was charged to the income statement in 2010/11. In June 2011, the Performance Share Plan was settled. The agreements for Chinese and Japanese employees were amended and settled in cash. The cash settlement concerned 1'136 shares for which a total amount of CHF 650 thousand was paid. The remaining 4'828 shares were transferred to employees generating a net impact in the equity of CHF 91 thousand.

22 Retirement benefit obligations

The Group operates a defined contribution plan for all its employees in Switzerland. Under IFRS, this plan is considered as a defined benefit plan.
The benefits are primarily based on years of service and level of compensation in accordance with local regulations and practices.

During the fiscal year 2011/12, the Group moved all its Swiss employees from its former autonomous pension foundation into a separate collective foundation. The new foundation continues to qualify as a defined benefit plan under IFRS.
It is to be noted that this change has had no impact on the benefits.

The following table provides a reconciliation of the changes in the net benefit obligation.

Net benefit expense

In CHF thousands	2012/13	2011/12
Current service cost	3'159	2'970
Interest cost	890	1'145
Expected return on plan assets	(1'455)	(1'450)
Employee contributions	(1'333)	(1'557)
Amortization of gains and losses	357	460
Net benefit expense losses	**1'618**	**1'568**

Costs related to the pension plan were charged to the different functional departments based on salary costs.

Changes in defined benefit obligation		
Defined benefit obligation per beginning of year	**35'227**	**38'162**
Interest cost	890	1'145
Current service cost	3'159	2'970
Benefits paid	(1'645)	(4'248)
Settlement of pensioners	(3'812)	
Actuarial (gains) / losses on obligation	875	(2'802)
Defined benefit obligation per end of year	**34'694**	**35'227**

Changes in the fair value of plan assets

Fair value of plan assets per beginning of year	**32'329**	**32'214**
Expected return	1'455	1'450
Contribution by employer and employee	7'151	3'882
Benefits paid	(1'645)	(4'248)
Settlement of pensioners	(3'812)	
Actuarial gains / (losses) on plan asset	233	(969)
Fair value of plan assets per end of year	**35'711**	**32'329**

LEM expects to contribute CHF 1'887 thousand to its defined benefit plan in 2013/14.

Net pension liabilities / assets

In CHF thousands	31.3.2013	31.3.2012
Present value of funded obligations	34'694	35'227
Fair value of plan assets	(35'711)	(32'329)
Funded status	**(1'017)**	**2'898**
Unrecognized net actuarial losses	(6'056)	(5'771)
Net liabilities / assets (-)	**(7'073)**	**(2'873)**

Actual return on plan assets for 2012/13 was CHF 1'688 thousand (2011/12 CHF 481 thousand)

Comparison of amounts

In CHF thousands	31.3.2013	31.3.2012	31.3.2011	31.3.2010	31.3.2009
Plan assets	35'711	32'329	32'214	26'607	23'181
Defined benefit obligations	34'694	35'227	38'162	28'876	28'544
Funded status	**1'017**	**(2'898)**	**(5'948)**	**(2'269)**	**(5'363)**
Experience gains / (losses) on plan asset	233	(969)	(220)	2'947	(6'705)
Experience adjustment (gains) / losses on obligation	(1'168)	(2'779)	1'103	464	(649)

Strategic pension plan allocations are determined by the objective to achieve a return on investment, which, together with the contribution paid, is sufficient to maintain reasonable control over the various funding risks of the plans. Estimated returns on assets are determined based on the asset allocation and are reviewed periodically. A temporary deviation from policy targets is allowed.

Major categories of plan assets as a percentage of the fair value of total plan assets

In %	Long-term target	2012/13	2011/12
Equity securities	30.0	34.0	29.5
Debt securities	36.0	30.0	54.0
Real estate	20.0	23.0	5.0
Cash and other investments	14.0	13.0	11.5
	100.0	**100.0**	**100.0**

The principal actuarial assumptions used in the actuarial calculations include:

In %	2012/13	2011/12
Discount rate	2.0	2.5
Salary increases	1.5	1.5
Expected return on plan assets		
_ Equities	6.5	6.5
_ Bonds	3.5	3.5
_ Other assets	2.5	2.5

23 Operating lease commitments

Minimal lease payments are payable as follows:

In CHF thousands	31.3.2013	31.3.2012
Within one year	4'565	4'460
Between one and five years	20'016	18'844
Beyond five years	3'010	6'469
Total	**27'591**	**29'773**

In 2012/13 lease expenses amounted to CHF 5'141 thousand (2011/12 CHF 4'920 thousand).
Lease agreements exist for the business facilities used by the Group companies.
The agreements are classified as operating leases.
The leases have varying terms and renewal rights between one and fifteen years.

24 Contingent liabilities

In CHF thousands	31.3.2013	31.3.2012
Total guarantee for credits of subsidiaries	0	0
Total guarantee to third parties	1'832	1'818
Total	**1'832**	**1'818**

Contingent liabilities include bank guarantees on various matters. No material liability is expected to occur in the ordinary course of business.
The Group is from time to time impacted by changing political, legislative, fiscal and regulatory environments, including those relating to environmental protection. The frequency and effects on future operations and earnings are unpredictable and are only partly covered by insurances.

25 Financial risk management objectives and policies

The group classifies its financial assets and liabilities into the following categories as per IFRS 7:

Financial assets In CHF thousands	31.3.2013 Fair value	31.3.2012 Fair value	Loans and receivables
Cash and cash equivalents	27'629	21'121	X
Accounts receivable	43'080	42'140	X
Other current assets	1'144	1'996	X
Other non-current assets	738	495	X
Total	**72'591**	**65'752**	

Financial liabilities In CHF thousands	31.3.2013 Fair value	31.3.2012 Fair value	Financial liabilities
Accounts payable	16'766	17'863	X
Accrued expenses	14'900	14'855	X
Other current liabilities	1'377	632	X
Bank loans	0	3'000	X
Other non-current liabilities	613	642	X
Total	**33'657**	**36'992**	

The Group enters into derivative transactions such as currency risk reversal contracts to hedge the USD and EUR risks.
The purpose of these currency hedges is to manage the currency risks arising from the Group's operations.

It is the Group's policy that no derivatives for speculative purposes shall be entered into.
The main risks arising from the Group's financial instruments are foreign currency risks and credit risks, whereas the others are of minor or no impact.
The Board of Directors reviews and agrees policies for managing each of those risks.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group's financial liabilities at fair value amount to CHF 1'115 thousand per 31.3.2013 (financial assets of CHF 187 thousand per 31.3.2012), all classified under level 2.

During the two last reporting periods, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Foreign currency risk

The Group operates globally and is exposed to various foreign exchange risks primarily to the USD, EUR, JPY, CNY and GBP.

The Group seeks to reduce those risks by optimizing its natural hedging (cash inflows and outflows in a specific currency should be in balance as far as possible).

The Group's policy states that 100% of LEM's net exposure for the main currency EUR is to be hedged on a rolling 18 month basis. For the USD, between 50% and 100% of the net exposure is to be hedged on a rolling 6 to 18 months basis.

Currency risks also arise from translation differences that are not hedged by the Group when preparing the consolidated financial statements in CHF. The foreign exchange translation is excluded from the calculation of the sensitivity analysis for currency risk below.

Sensitivity analysis for currency risk

The sensitivity analysis is performed per 31.3.2013 with a 5% change in the USD, EUR, JPY, CNY and GBP with all other variables held constant of the Group's profit before tax (due to the changes in the fair value of the monetary assets and liabilities) and the Group's equity.

The sensitivity analysis performed for the financial year shows an impact of CHF ±420 thousand for a ±5% EUR rate change (CHF ±560 thousand per 31.3.2012), of CHF ±665 thousand for a ±5% USD rate change (CHF ±433 thousand per 31.3.2012) and of CHF ±291 thousand for a ±5% CNY rate change (CHF ±285 thousand per 31.3.2012). For other currencies, there is no significant impact. There is no significant impact on the Group's equity.

Credit risk

The Group trades with recognized and creditworthy parties. The accounts receivable are monitored on a monthly basis. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In case of a deterioration of the credit history, advance payments are required.

The Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 4.

There are no significant concentrations of risk within the Group.

With respect to credit risk arising from the other financial assets in the Group, which comprises cash and cash equivalents, other current assets and certain derivative instruments, the Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these positions.

Liquidity risk

The Group operates a cash-pooling agreement in which cash targets are set for all the subsidiaries. Cash surplus / shortages are balanced in intercompany loans on a monthly basis.

Group capital requirements are managed centrally by corporate finance. In case liquidity is required a bank loan is either done centrally and passed on as an intercompany loan, or given directly by the bank to the subsidiary with a reduction of the Group's total credit line.

The total leverage of the Group is low, the financial liabilities mature in less than one year based on the carrying value of borrowings reflected in the financial statements.

Financial liabilities

In CHF thousands	31.3.2013	Less than one year	Over one year	31.3.2012	Less than one year	Over one year
Accounts payable	16'766	16'766		17'863	17'863	
Accrued expenses	14'900	14'900		14'855	14'855	
Other current liabilities	1'377	1'377		632	632	
Bank loans	0			3'000	3'000	
Other non-current liabilities	613		613	642		642
Total	**33'657**	**33'044**	**613**	**36'992**	**36'350**	**642**

Interest rate risk

The Group's exposure to the risk of changes in market interest rates with the current financial leverage is very low. Per 31.3.2013, there is no bank loan.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy and stable equity ratio in order to secure the confidence of shareholders and investors, creditors and other market players and to strengthen the future development of the Group's business activities. The Group manages its capital structure and makes adjustments to it, in light of changes in the economic conditions. LEM targets a pay-out ratio significantly above 50% of the consolidated net profit for the year.
However, it may diverge from this policy due to economic prospects or on the grounds of planned future investment activities.

26 Scope of consolidation

Full consolidation	Country	Currency	Share capital	Ownership
Europe				
LEM Belgium sprl-bvba	Belgium	EUR	60'000	100%
LEM Deutschland GmbH	Germany	EUR	75'000	100%
LEM France SárL	France	EUR	120'000	100%
LEM Holding SA	Switzerland	CHF	570'000	100%
LEM International SA	Switzerland	CHF	100'000	100%
LEM Intellectual Property SA	Switzerland	CHF	8'500'000	100%
LEM Switzerland SA	Switzerland	CHF	1'000'000	100%
LEM UK Ltd	Great Britain	GBP	2	100%*
LEM Danfysik A/S	Denmark	DKK	2'000'000	100%**
LEM Bulgaria EOOD	Bulgaria	BGN	16'000	100%
TVELEM Ltd	Russia	RUB	6'600'000	100%
LEM Management Services SárL	Switzerland	CHF	20'000	100%
North America				
LEM USA Inc.	USA	USD	150'000	100%
Asia				
LEM Electronics (China) Co. Ltd	China	CNY	53'153'194	100%
LEM Japan KK	Japan	JPY	16'000'000	100%

* Company in liquidation
** Company liquidated per 08.4.2013

27 Changes in scope of consolidation

On 1 July 2012, LEM separated the activity of LEM SA into two distinct companies. LEM Intellectual Property is in charge of the intellectual property of the Group, with its offices in Fribourg, LEM Switzerland SA is responsible for the Swiss production and contract R&D activities, with its offices in Geneva. This change has not had any impact on the Group equity.

LEM has launched a project aiming to simplify the structure of its European agency companies and to save administrative cost. LEM has already converted some of its European entities into branches of a European head office.

- On 1 December 2012, LEM Denmark was created as a branch of LEM Deutschland GmbH. The former company incorporated as LEM Danfysik A/S was liquidated per 8 April 2013.
- On 1 January 2013, LEM UK was created as a branch of LEM Deutschland GmbH. The former company incorporated as LEM UK Ltd is in liquidation and in the scope of consolidation at 31 March 2013.
- On 1 January 2013, LEM Italy Srl was merged into LEM Deutschland GmbH.

On 1 March 2013, the Group registered a new production plant in Sofia, Bulgaria. The goal of LEM Bulgaria is to diversify LEM's low-cost production and increase production capacity close to its European customers. At the same time, LEM will improve the natural hedge of its operations by better matching currencies of sales and cost. The new plant, which will be established in a leased property in Sofia, occupies 4'500 square meters of floor space. LEM intends to invest CHF 2 million to equip the site and expects to start production in October 2013. In an initial phase, LEM Bulgaria will hire 50 employees for the new production plant.

28 Events after the balance sheet date

On 2 April 2013, LEM Holding transferred its seat to Fribourg. On 8 April 2013, the company incorporated as LEM Danfysik A/S was liquidated.

Auditor’s Report

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of LEM Holding SA, which comprise the statement of financial position, income statement, cash flow statement, statement of comprehensive income, statement of changes in equity and notes (pages 33 to 57), for the year ended 31 March 2013.

Board of Directors’ responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 March 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Over-sight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Lancy, 17 May 2013

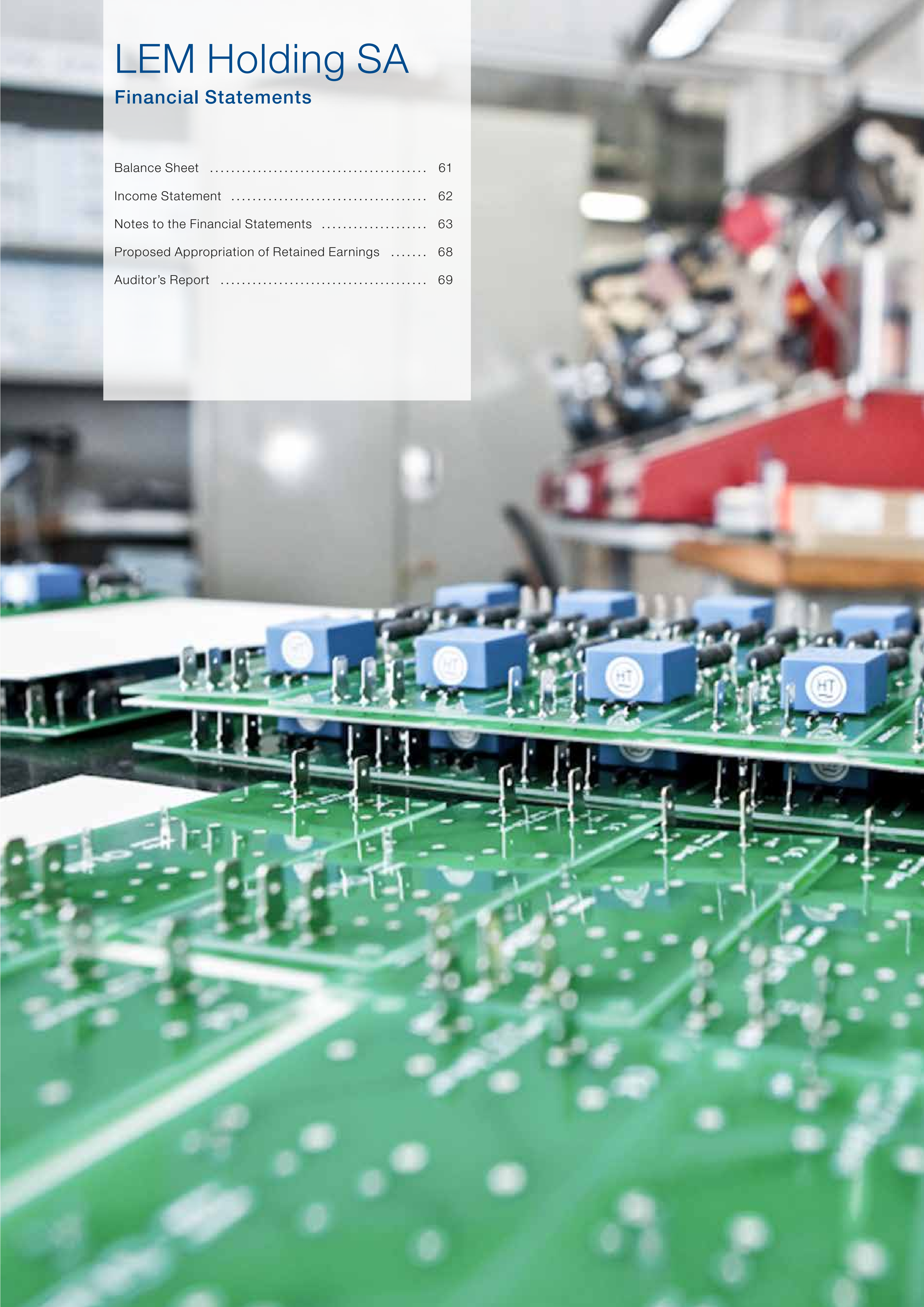
Ernst & Young Ltd

Philippe Stöckli
Licensed audit expert
(Auditor in charge)

Laurent Bludzien
Licensed audit expert

LEM Holding SA

Financial Statements



Balance Sheet
(before distribution of earnings)

Assets

In CHF thousands	Notes	31.3.2013	31.3.2012
Current assets			
Cash and cash equivalents		9'725	4'141
Treasury shares	3	765	1'984
Other current assets		133	538
Group current assets	5	42'143	22'769
Total current assets		**52'766**	**29'432**
Non-current assets			
Investments in subsidiaries	4	53'698	53'687
Total non-current assets		**53'698**	**53'687**
Total assets		**106'464**	**83'119**

Liabilities and Equity

In CHF thousands	Notes	31.3.2013	31.3.2012
Current liabilities			
Current financial liabilities		0	3'000
Other current liabilities		3'488	2'518
Group current liabilities	5	33'509	25'138
Total current liabilities		**36'997**	**30'657**
Other non-current liabilities		153	0
Total liabilities		**37'150**	**30'657**
Equity			
Share capital	2	570	570
General reserve		285	288
Reserve for treasury shares	3	765	1'984
Retained earnings		22'468	11'861
Net profit for the year		45'227	37'759
Total equity		**69'315**	**52'462**
Total liabilities and equity		**106'464**	**83'119**

Income Statement

Income In CHF thousands	Notes	2012/13	2011/12*
Financial income from Group dividend payments		45'612	35'648
Interest income from Group loans		825	391
Other financial income		492	2'055
Other Group income		4'947	4'826
Foreign exchange gain		0	0
Total income		**51'876**	**42'920**

Expense	Notes	2012/13	2011/12*
Office, administration and personnel expense	7	(4'429)	(3'580)
Financial expense		(385)	(305)
Foreign exchange effect		(1'420)	(912)
Total expense		**(6'234)**	**(4'797)**
Profit before taxes		45'642	38'123
Income taxes	8	(415)	(364)
Net profit for the year		**45'227**	**37'759**

* Reclassification for comparative information. Please refer to note 6.

Notes to the Financial Statements

1 Principles for the establishment of the financial statements

The accompanying financial statements have been prepared in accordance with the requirements of the Swiss Code of Obligations. Regarding the inclusion of LEM Holding SA in the consolidated financial statements, the accounting and reporting principles described in the notes to the consolidated financial statements apply.

2 Share capital

	Number of shares	Par value per share in CHF	Capital in CHF thousands
Opening capital 1.4.2012	1'140'000	0.50	570
Change of capital	0		0
Closing capital 31.3.2013	1'140'000	0.50	570

3 Treasury shares

	Number of shares	Price per share in CHF	Value in CHF thousands
Value 1.4.2012	4'588	432.39	1'984
Change	(3'272)	(372.62)	1'219
Value 31.3.2013	**1'316**	**581.00**	**765**
Value 1.4.2011	18'247	388.62	7'091
Change	(13'659)	373.91	(5'107)
Value 31.3.2012	**4'588**	**432.39**	**1'984**

On 1 September 2010, LEM launched a share buy-back program which ran for one and a half years covering a volume of up to CHF 15 million on a second trading line. 10'000 shares were bought for a total amount of CHF 3.97 million. These shares were earmarked for cancellation. LEM terminated its share buy-back program per 23 May 2011.

On 4 July 2011, LEM Holding reduced its capital by 10'000 shares of CHF 0.50 each by the cancellation of the 10'000 own shares previously acquired for a total amount of CHF 3.97 million.

In the first quarter 2011/12, the Performance Share Plan was settled. 4'828 shares were transferred to subsidiaries, generating a net impact in the equity of CHF 1.08 million. The agreements for Chinese and Japanese employees were amended and settled in cash by the subsidiaries.

During the year 2011/12, LEM acquired 1'169 shares for a total amount of CHF 0.54 million, in the frame of its market making contract started on 1 July 2011.

Per 31 March 2012, LEM Holding held 4'588 remaining treasury shares. In the first half year 2012/13, 3'419 treasury shares on LEM Holding's own account were sold for a total amount of CHF 1'619 million.

During the year, LEM acquired 147 own shares for a total amount of CHF 0.09 million, in the frame of its market-making contract.

The movements in treasury shares during 2012/13 caused an impact of CHF 1'219 thousand in retained earnings, of which CHF 1'442 thousand through LEM Holding's own account and CHF-223 thousand through market-making activities.

Subsidiaries of LEM Holding SA did not own any shares of LEM Holding SA.

Treasury shares are valued at lower of cost or market value.

4 Investments in subsidiaries

In CHF thousands	31.3.2013	31.3.2012
Historical cost	53'698	53'687
Total	**53'698**	**53'687**

Refer also to note 26 Scope of consolidation of the consolidated financial statements.

5 Group current assets and liabilities

In CHF thousands	31.3.2013	31.3.2012
Current inter-company loans receivable	34'809	22'081
Inter-company accounts receivable	7'334	687
Total	**42'143**	**22'769**
Current inter-company loans payable	33'370	25'028
Inter-company accounts payable	138	111
Total	**33'509**	**25'138**

6 Reclassification

To increase transparency and to ameliorate the understandability of the Financial Statements, the following reclassifications have been applied to prior year's figures:

- Costs of insurance contracts to be recharged to other Group companies and services from other Group companies have been reclassified from "Other Group income" into "Office, administration and personnel expense" for CHF 0.67 million.
- Withholding taxes on paid dividend repatriation and other withholding taxes not recoverable from "Income taxes" into "Office, administration and personnel expense" for CHF 0.42 million.

7 Office, administration and personnel expense

In CHF thousands	31.3.2013	31.3.2012
Office and administration expense	(1'826)	(2'088)
Consulting fees	(59)	(1'210)
Board member fees	(870)	(704)
Other withholding taxes not recoverable	(113)	469
Withholding taxes on paid dividend repatriation	(1'561)	(47)
Total	**(4'429)**	**(3'580)**

8 Income taxes

In CHF thousands	31.3.2013	31.3.2012
Current taxes	(395)	(364)
Adjustments of tax provisions of previous periods	(20)	0
Total	**(415)**	**(364)**

9 Important shareholders according to article 663c of the Swiss company law

The following shareholders held 3% or more of the share capital and voting rights on 31 March 2013:

In number of shares/options, per cent of shareholding	31.3.2013				31.3.2012			
	Shares	Options	Position	In %	Shares	Options	Position	In %
Werner O. Weber and Ueli Wampfler, in Zollikon/Wollerau, Switzerland, through WEMACO Invest AG and Swisa Holding AG, in Zug/Cham, Switzerland	398'000	50'000	448'000	39.30%	382'500	N/N	382'500	33.60%
Ruth Wertheimer, in Kfar, Israel, through 7-Industries Holding B.V., in Amsterdam, Netherlands	144'581	N/N	144'581	12.70%	144'581	N/N	144'581	12.70%
Sarasin Investmentfonds AG, in Basel, Switzerland	90'320	N/N	90'320	7.90%	101'044	N/N	101'044	8.90%
Montanaro Asset Management Ltd, in London, United Kingdom	69'071	N/N	69'071	6.10%	55'251	N/N	55'251	4.80%
Erwin Studer and Joraem de Chavonay, in Zollikon/Zug, Switzerland	97'000	(50'000)	47'000	4.10%	89'500	N/N	89'500	7.90%
Amerprise Financial Inc., in Minneapolis, USA, through Threadneedle Asset Management Ltd, in London, United Kingdom	38'216	N/N	38'216	3.40%	56'777	N/N	56'777	5.00%
Impax Asset Management Ltd, in London, United Kingdom	–	–	–	<3%	35'400	N/N	35'400	3.10%

N/N = none notified

10 Guarantees in favor of third parties on behalf of subsidiaries

In CHF thousands	31.3.2013	31.3.2012
Amount of guarantees issued	1'832	1'598

11 Remuneration of Board of Directors and Executive Management

11.1 Compensation of active members of the Board of Directors

The members of the Board of Directors do not participate in bonus schemes, pension funds, nor in the Performance Share Plan (PSP). The annual salary compensation is therefore equal to the total compensation.

In 2012/13, additional fees totaling CHF 130'000 were awarded to Andreas Hürlimann (CHF 95'000), to Ilan Cohen (CHF 20'000) and to Peter Rutishauser (CHF 15'000) for additional efforts in their role and duties as members of the Board of Directors.

Andreas Hürlimann's additional fees exceed his normal annual salary. No other member of the Board of Directors received additional fees amounting to more than half his normal compensation.

2012/13

In CHF thousands	Annual salary	Additional fees	Cash-out for options granted in prior years
Felix Bagdasarjanz[1]	200	0	0
Ilan Cohen[2]	100	20	0
Andreas Hürlimann	80	95	0
Anton Lauber[3]	100	0	0
Peter Rutishauser[4, 5]	150	15	0
Ueli Wampfler[6]	110	0	0
Total	**740**	**130**	**0**

The Board of Directors decided to contribute the equivalent of 5% of its annual remuneration to LEM's cost saving efforts in 2011/12. The annual salary had been lowered accordingly.

2011/12 In CHF thousands	Annual salary	Additional fees	Cash-out for options granted in prior years
Felix Bagdasarjanz[1]	171	0	0
Ilan Cohen[2]	95	10	0
Andreas Hürlimann	76	10	0
Anton Lauber[3]	95	0	0
Peter Rutishauser[4, 5]	143	0	0
Ueli Wampfler[6]	105	0	0
Total	**685**	**20**	**0**

[1] Chairman of the Board of Directors
[2] Member of the Audit Committee
[3] Member of the Nomination & Compensation Committee
[4] Vice Chairman of the Board of Directors
[5] Chairman of the Nomination & Compensation Committee
[6] Chairman of the Audit Committee

11.2 Compensation to active members of the Executive Management of the LEM Group

2012/13 In CHF thousands	Annual salary compensation	Annual bonus compensation [1]	Company's contribution to pension fund	Total compensation	Cash-out for options granted in prior years	Pay-out of PSP shares granted in prior years
François Gabella, CEO	450	329	49	828	0	0
Executive Management (excl. CEO)	1'248	583	112	1'943	0	0
Total compensation to Executive Management	**1'698**	**912**	**161**	**2'770**	**0**	**0**

Executive Management decided to contribute the equivalent of 10% of its monthly remuneration for the duration of short work in LEM's main sites, i.e., January to February 2012, to LEM's cost saving efforts in 2011/12. The annual salary had been lowered accordingly.

2011/12 In CHF thousands	Annual salary compensation	Annual bonus compensation [1]	Company's contribution to pension fund	Total compensation	Cash-out for options granted in prior years	Pay-out of PSP shares granted in prior years
François Gabella, CEO	440	414	46	901	0	0
Executive Management (excl. CEO)	1'154	607	103	1'864	730	1'904
Total compensation to Executive Management	**1'594**	**1'021**	**149**	**2'765**	**730**	**1'904**

[1] The annual bonus compensation is shown with the corresponding accrual for the performance of the current year, to be paid out in the following year. All other elements are shown as paid out.

Discontinued plans

During May 2009, the Board of Directors decided not to issue any further equity- or option-based compensation programs. The company administrates the legacy programs until the expiry of the last plan (SOP 6) in March 2012 and the settlement of the Performance Share Plan (PSP) in the first quarter of financial year 2011/12. CEO François Gabella and CFO Julius Renk did not participate in the stock option program and in the PSP.

For more information on Performance Share Plan and stock options plans, refer to note 21 Related parties of the Consolidated Financial Statements.

Highest total compensation

CEO François Gabella was the Executive Management member with the highest total compensation in 2012/13 and in 2011/12.

11.3 Shareholdings

Board of Directors	31.3.2013		31.3.2012	
In number of shares/options	Number of shares held	Number of options held	Number of shares held	Number of options held
Felix Bagdasarjanz[1]	1'736	0	1'736	0
Ilan Cohen[2]	140	0	120	0
Andreas Hürlimann	505	0	211	0
Anton Lauber[3]	424	0	1'000	0
Peter Rutishauser[4, 5]	2'606	0	2'606	0
Ueli Wampfler[6]	28'000	10'000	25'000	0
Total	**33'411**	**10'000**	**30'673**	**0**

[1] Chairman of the Board of Directors
[2] Member of the Audit Committee
[3] Member of the Nomination & Compensation Committee
[4] Vice Chairman of the Board of Directors
[5] Chairman of the Nomination & Compensation Committee
[6] Chairman of the Audit Committee

Ueli Wampfler has acquired 10’000 options on LEM shares from the shareholder group Studer/Chavonay.

Executive Management	31.3.2013		31.3.2012	
In number of shares/options	Number of shares held	Number of options held	Number of shares held	Number of options held
François Gabella, CEO	360	0	300	0
Julius Renk, CFO	40	0	45	0
Luc Colombel, Vice President, Automotive	2'100	0	2'100	0
Hans-Dieter Huber, Vice President, Industry	1'265	0	1'425	0
Jean-Marc Peccoux, Vice President, R&D and IP	1'500	0	1'500	0
Simon Siggen, Vice President, Operations	1'100	0	1'450	0
Total	**6'365**	**0**	**6'820**	**0**

12 Business risk management

In accordance with Article 663b of the Swiss Code of Obligations, a risk management report was prepared for the financial year 2012/13.
The Executive Management of the Group assesses the business risks within its standardized analysis procedure.
The Group has a risk management system in place which allows for the prompt identification and analysis of risks as well as the initiation of an action plan.
The Board of Directors of LEM Holding SA took note of the risk management report and approved both the procedure and the content thereof.
The organization, principles and reporting of risk management are described in detail in the Corporate Governance section 3 in this Annual Report.

Proposed Appropriation of Retained Earnings

Appropriation of available earnings
In CHF thousands

	31.3.2013	31.3.2012
Retained earnings brought forward from previous year	21'249	10'717
Variation of treasury shares	1'219	1'144
Retained earnings	**22'468**	**11'861**
Reclassification from general reserve into available earnings		3
Net profit for the year	45'227	37'759
Total available earnings	**67'695**	**49'623**
Proposal of the Board of Directors:		
Ordinary dividend [1]	(34'161)	(28'374)
Balance to be carried forward	**33'534**	**21'249**

[1] Excluding dividends on own shares held by LEM Holding SA

The Board of Directors proposes the distribution of an ordinary dividend of CHF 30 per share.
Net of 35% withholding tax, this is an ordinary cash dividend of CHF 19.5 per share.

The proposed appropriation of available earnings is made in compliance with article 671 of the Code of Obligations.

Auditor's Report

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of LEM Holding SA, which comprise the balance sheet, income statement and notes (pages 61 to 67), for the year ended 31 March 2013.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's Articles of Incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 March 2013 comply with Swiss law and the company's Articles of Incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Over-sight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's Articles of Incorporation. We recommend that the financial statements submitted to you be approved.

Lancy, 17 May 2013

Ernst & Young Ltd

Philippe Stöckli
Licensed audit expert
(Auditor in charge)

Laurent Bludzien
Licensed audit expert

Information for Investors

Number of registered shareholders	31.3.2013	31.3.2012
1-499	567	628
500-4'999	75	81
5'000-49'999	6	7
50'000 and more	6	6
Total	**654**	**722**

Shareholders by category In %	31.3.2013	31.3.2012
Institutional shareholders	49.2	50.5
Private individuals	32.0	33.3
LEM employees, managers and board	3.6	3.4
Treasury shares	0.1	0.4
Non-registered shares	15.1	12.4
Total	**100.0**	**100.0**

Share information

Symbol	LEHN
Listing	SIX Swiss Exchange
Nominal value	CHF 0.50
ISIN	CH0022427626
Swiss Security Number (Valor)	2'242'762

In CHF	2012/13	2011/12
Number of shares	1'140'000	1'140'000
Year high[1]	604	601
Year low[1]	451	331
Year end[1]	589	494.5
Average daily trading volume (shares)[1]	493	960
Earnings per share	28.67	21.11
Ordinary dividend per share[2]	30	25
Market capitalization as per 31 March (In CHF millions)	671	564

[1] Source: SIX
[2] Proposal of the Board of Directors to the shareholders' meeting

Financial calendar of the financial year
1 April 2013 to 31 March 2014

27 June 2013	Ordinary Shareholders' Meeting Université de Fribourg, bd. de Pérolles
2 July 2013	Dividend ex-date
5 July 2013	Dividend payment date
7 August 2013	First quarter results 2013/14
13 November 2013	Half-year results 2013/14
18 February 2014	Third quarter results 2013/14
4 June 2014	Year-end results 2013/14
26 June 2014	Ordinary Shareholders' Meeting
1 July 2014	Dividend ex-date
4 July 2014	Dividend payment date

Contact

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Group Subsidiaries

LEM is a global player with production plants and development centers in Beijing (China), Geneva (Switzerland) and Machida (Japan). The company has sales offices at all its clients' locations and offers seamless service around the globe.

For a complete list of subsidiaries, offices and representatives, refer to www.lem.com > Contact > Sales Locator

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> Jean-Marc Peccoux

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